

Scoping Paper for
Horizon 2020 work programme 2018-2020
Innovation in SMEs

Important Notice: Working Document

This scoping paper will guide the preparation of the work programme itself. It is a working document not formally endorsed by the Commission, and its content does not in any way prejudge the final decision of the Commission on the work programme.

The adoption and the publication of the work programme by the Commission are expected in October 2017. Only the adopted work programme will have legal value.

Scoping paper for the Horizon 2020 work programme 2018-2020 Innovation in SMEs

1. Context

This scoping paper for the Horizon 2020 Specific Objective ‘*Innovation in SMEs*’ has been developed on the basis of a variety of inputs, including:

- The Report of the Advisory Group (AG) on ‘Innovation in SMEs’¹; which contains recommendations for customising and improving SME innovation support measures, in particular aimed at facilitating SME access to customers, capital and competences, the latter especially in the domains of business, innovation and intellectual asset management.
- Regular consultations and exchanges with relevant policy stakeholders – such as the European Association of Craft, Small and Medium-sized Enterprises (UEAPME), the European Patent Office (EPO), the Organisation for Economic Cooperation and Development (OECD), the European Investment Fund (EIF), Enterprise Europe Network (EEN) or National Contact Points (NCPs);
- Surveys and workshops involving experts on topics like internationalisation, investment readiness² or state aid rules for SMEs, and information drawn from the feedback to the Call for Ideas for a ‘European Innovation Council’;
- Feedback from implementation of Horizon 2020 actions from participants, applicants and EU project officers and their management alike.

The overarching policy objective of ‘Innovation in SMEs’ is **to enhance the Research Development Innovation (RDI) environment for small and medium-sized enterprises (SMEs), strengthening the innovation capacity of SMEs and creating value on the market and/or into society, in support of the Europe 2020 strategy for smart, inclusive and sustainable growth**. This objective primarily feeds into the #1 political priority of the Juncker Commission – which is **boosting jobs, growth and investment** – and supports mainly the policy priority ‘Open Innovation’ of Commissioner for Research, Innovation and Science Moedas, which aims at co-creating economic and social value through combining knowledge and ideas, integrating mega-trends such as digitisation, mass participation and collaboration, and sustainability.

As was the case in 2014-2015, the **Horizon 2020 Work Programme 2016-2017** on ‘*Innovation in SMEs*’ encompasses two main parts:

- 1) *The SME Instrument Call*: this continuously open call aims to streamline and integrate SME support throughout the innovation cycle, by staged investment into excellent and fairly mature business innovation projects and the companies that drive them. The Horizon 2020 target is to allocate 7% of the combined budgets for the ‘Societal Challenges’ and the specific objective ‘Leadership in Enabling and Industrial Technologies’ (‘LEITs’) through the SME

¹ Horizon 2020 Expert Advisory Group on Innovation in SMEs, *Final Report to the European Commission*, June 2016.

² Action 9 - Assessing the Investment Potential of SMEs Emerging from Phase 1 and Phase 2 of the SME Instrument, June 2016

instrument call, which apart from funding also foresees in a range of business support services enhancing the latter's impact.

2) *The INNOSUP Call and Other Actions*: compiles a range of mostly indirect support actions financed under ‘*Innovation in SMEs*’. It contains a **single call** – ‘**Enhancing SME innovation capacity by providing better innovation support**’ (INNOSUP), which features a diversity of topics, relating to:

- Clusters as animators of cross-sectorial projects for new industrial value chains,
- Access to specialised human capital and skills,
- Access to technology supporting innovation in the advanced manufacturing and in particular the clean tech sector and to technologies developed overseas (the latter through EEN sector groups),
- Facilitation of social innovation for SMEs,
- Peer learning for innovation agencies and National Contact Points (NCPs),
- Increasing impact of SME innovation support through better segmentation of the target audience.

Other actions improving the innovation eco-system for SMEs that are not part of the INNOSUP call notably include:

- The renewal of the EU commitment to support EUREKA/Eurostars,
- The enhancement of SME innovation management capacity through EEN service delivery,
- Additional support to SMEs internationalising their innovation activities,
- Boosting investment readiness and commercialisation opportunities for innovating SMEs, in particular those emerging from other Horizon 2020 supported actions.

2. Strategic orientations for 2018-2020 and translation into calls

In view of the still fragile economic recovery and high unemployment especially amongst the youth, the EU’s agenda has a strong focus on sustainable job creation, growth, increased investments from both public and private sources.

Research and innovation and the role of SMEs are seen as major drivers of growth with open innovation and open science promoting the collaboration between stakeholders and the creation of value at the interface between sectors and industries where synergistic approaches can help address major societal and market needs.

Support to ‘*Innovation in SMEs*’ continues to be a prominent driver towards economic and societal gains at the EU level. SMEs remain the most significant source of jobs in Europe, are a major source of disruptive, market-creating innovation (especially start-ups), act as change agents and are important channels for commercialisation of R&D results.

For many SMEs, **innovation** and **growth** are not continuous processes: innovation activities lay the foundation for a growth phase; growth is realised by accessing new promising markets which requires additional investments; a phase of consolidation follows during which costs of investments have to be recuperated and markets are abandoned that are no longer - or did not become - profitable.

In order to fuel economic and societal improvement, 'Innovation in SMEs' is to feature the following specific objectives in 2018-2020:

1. ***Streamlined and integrated support throughout the innovation cycle to all types of innovation-driven SMEs by a fully bottom-up SME instrument, to be rolled out under the remit of the European Innovation Council, championing market-creating innovation***
2. ***Convergence of national support programmes by supporting the Eurostars initiative for research intensive (R&D performing) SMEs.***
3. ***Higher efficiency of and economic impact from Research, Development and especially Innovation (RDI) activities in SMEs*** by improving the innovation eco-system for SMEs. This includes the framework conditions for innovation and innovation management capacities in SMEs, in particular for those SMEs supported by Horizon 2020.
4. ***Stimulating the exploitation of innovation trends*** with potential to add important value to SMEs and the European economy; particular attention will be devoted to ***market-driven innovation***.
5. ***Enhancing the quality and range of support services available to SMEs*** by highly specialised services at European level – including those of the EEN – and enhancing the quality of services provided by regions and Member States – including by NCPs – through experimentation and uptake of better practices.
6. ***Encouraging peer-learning*** among Member States support services in order to develop quality in service provision.

Over the past years **certain framework conditions for 'Innovation in SMEs' have improved**; the impact of EU initiatives like the Small Business Act for Europe (2009) or financial stimuli provided by the European Central Bank and EU financial instruments – including those under COSME and Horizon 2020 – is just one factor that explains this evolution, which has contributed to a fragile but visible economic recovery across the EU³.

Addressing gaps in terms of access to skills or expertise, resources, infrastructure or technology as part of SME innovation policy support remains a necessity nevertheless, in order to sustain the ongoing positive evolution by further shaping the conditions allowing SMEs across the EU to exploit their innovation potential to the full.

Particularly important approaching the end of Horizon 2020 is ensuring that SMEs can benefit from optimised **access to markets, customers, skills, and finance**⁴, which are essential for innovation in SMEs to be sustainable. Therefore, providing enhanced **access to skilled workforce and managers, stimulating interaction with customers for open innovation processes and commercial relevance, partnering for market access across Europe and beyond ('open to the world'), and improving investment and financial readiness of SMEs**

³ Across the EU-28, the recovery was visible for instance through more employment and higher value-added generated by SMEs in 2014, with respect to 2013. See European Commission, *Annual Report 2014/15 – SMEs start hiring again*, published in November 2015, p. 3: "Namely, in 2014 EU28 SME value added grew by 3.3% and employment by 1.2%, while in 2013 value added grew by 1.6% and employment declined by 0.5%."

⁴ The European Commission's *Innobarometer 2015 – The innovation trends at EU enterprises* (published in September 2015) reveals that access to finance was a problem for 68% of innovating SMEs, while access markets due to dominant competition or due to cost or complexity of meeting regulations or standards was a problem for respectively 64% and 62% of innovating SMEs. Low demand for innovative goods and services was identified as the fourth most important problem, 53% of innovating SMEs complaining about that in February 2015, when the field work for this survey was conducted.

for innovation and growth continue to be focus areas of this section of the Work Programme. Segmentation of SMEs and better targeting the innovation support remains a key issue for the creation of tangible impact.

Innovation management remains a key skill necessary for SMEs to shorten the path from an innovative idea to the market and successfully turn innovative ideas into profitable ventures. Further support to SMEs to strategically manage and profit from their **intellectual assets and capital** remains a valid need. Whereas previous Work Programmes already focused on providing IP initial advice to SMEs through actions such as the IPR helpdesks-, **more customised strategic advice** is needed. This more elaborate and tailored advice would take the form of offering a business support service focusing on IP audits, landscaping and strategy which would support the business planning of the SME and help SMEs to enter and grow in relevant markets and develop leadership.

In line with the principle of subsidiarity and in pursuit of delivering the highest added value from public support, the EU will continue to invest in **boosting the quality of innovation support** at EU, national and regional levels on the one hand; on the other hand, the EU intends to help addressing the gaps in the current innovation support to SMEs via:

- Knowledge exchanges and integration of best practices among innovation support entities;
- Better guiding SMEs towards the most relevant innovation support opportunities;
- Expanding the portfolio of close-to-market public innovation support instruments and practices, such as new types of experimental product development;
- Improving the skills of the staff in organisations which provide innovation support, so that they are able to address new challenges;
- Helping SMEs explore **new innovation trends** with disruptive potential to give competitive edge to the most agile of Europe's innovating SMEs;
- Helping innovation-driven SMEs better recognise market opportunities, understand competing innovative solutions;
- Addressing skill gaps in SMEs which hamper innovation and scaling-up (such as innovation management capacity, access to skilled workforce, leadership able to manage the scaling-up process).

In terms of impact, the different EU initiatives supported under 'Innovation in SMEs' are to lead, directly or indirectly, to more resilient and sustainable innovation-driven SMEs, and to an innovation support system which responds better to needs and challenges those SMEs face.

As for the few existing gaps part in terms of policy support at the level of the Horizon 2020 Specific Programme on 'Innovation SMEs' that were identified during a gap analysis early 2016, support to technology transfer offices is facilitated through different opportunities under the 'Access to Risk Finance' part of the Horizon 2020 Work Programme, while support to procurement networks became a cross-cutting approach throughout the programme.

As for the **translation into calls**, the Work Programme 2018-2020 will include several initiatives that are defined in the legal framework and were established by the Work Programme 2014-2015 for the whole operational period of Horizon 2020, representing the bulk of the investment in 'Innovation in SMEs' for the entire programming period:

Call working title	Brief description of the scope of the call	Possible contribution from and to other work programme parts
Budget top-up to EUREKA/Eurostars-2	Convergence of national programmes supporting RDI activities in SMEs, enabling integration and collaboration between R&D intensive SMEs and international partners to the benefit of Europe's SME and wider economic competitiveness; support to market-creating innovation initiated by R&D performing SMEs. Supports 'Open Innovation' and 'Open to the World' policy priorities of Commissioner Moedas.	TFEU Art. 185 initiatives (Joint Programming) – support to the European Research Area (ERA)
Cluster facilitated projects for new industrial value chains,	Helps SMEs to recognise and realise opportunities for cross-sectorial and cross-border collaborative innovation in the context of collaboration of clusters. Support to 'Open Innovation' policy priority of Commissioner Moedas.	
Services by the EEN 'Enhancing the Innovation management capacity	Allow further developing capacity building and peer-to-peer learning initiatives for SMEs and their support entities and networks throughout Europe. Supports both 'Open Innovation' and 'Open to the World' policy priorities of Commissioner Moedas.	
SME instrument call	Tailored to the needs of SMEs as set in the specific objective “Innovation in SMEs”, the SME instrument is expected to evolve towards a fully bottom-up scheme focused on supporting market-creating innovation, and will benefit from closer ties with private investors and credit and guarantee institutions who can help to secure follow-up finance for scale-up of SME instrument generated innovations. Also the business processes related	Links exist to all Societal Challenges and the specific objective LEITs under Horizon 2020.

	<p>to the implementation of the call are under review in the framework of the Horizon 2020 interim evaluation⁵. The objective of the instrument continues to be the delivery of innovations with EU-added value onto the market, and to boost the innovation potential and the competitiveness of Europe's most promising SMEs in a sustainable way.</p>	
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Domains that are further explored for future calls under Innovation in SMEs work programme, including on the basis of input from the Horizon 2020 interim evaluation:

- Improving framework conditions for innovation (including in the context of a 'European Innovation Council') in particular by developing and testing new approaches to innovation support and networking support for innovative SMEs and their support organisations in order to achieve a better integration of innovative SMEs in an innovation ecosystem from the regional to the European level; this includes possibly also support to evaluation with peers, randomised control trials, and investigations into external effects of innovation support.
- Support to enhance the strategic capacity of innovative SMEs in the field of Intellectual Property management, building on existing support at EU level, given that at the level of the Member-States, adequate support is not always provided.
- Open innovation: No company possesses the knowledge and resources that allow to successfully and autonomously innovate in a constantly changing market environment. Successful innovation requires that companies have the possibility to open their innovation processes and to co-create novel and useful values together with customers and partners, within the EU and beyond.
- Market-driven innovation support and commercial readiness measures tailored to SMEs, and developed in sync with other efforts like the 'Common Exploitation Booster' projects, facilitating access to customers, especially large companies and public authorities; recognition of market opportunities; better intelligence on competing innovative solutions and new types of experimental product development, in order to strengthen the bridge to the market for innovative SMEs, and support further company development.

⁵ Advice from several stakeholders and experts insist on the need to acquire a deeper understanding on the companies requesting support under the SME instrument, as well as on the improvement of the feedback from evaluation to applicants, in particular under phase 2. The Horizon 2020 EAG on 'Innovation in SMEs' suggests to possibly organising face-to-face interviews to tackle current shortcomings of the evaluation, but in order to contain the possible impact on time-to-grant at large, suggests to only proceed with interviews for applicants close to the threshold for passing the evaluation (i.e. either with those just above or just below). It also investigated how to facilitate the application process and attract the right type of SMEs – i.e. those that can propose a ground-breaking innovation with clear value-added – to the scheme.