



Improving SME participation in the EU Framework Programmes

In Brief

Representing 99% of all enterprises in Europe, SMEs contribute to more than two thirds of the GDP of Europe and provide 75 million jobs in the private sector. Research-intensive SMEs are the main economic drivers of healthcare, biotechnology and medical technologies.

One way the European Commission acknowledges the importance of SMEs as innovators is by setting a target of 15% of the funding available under the 'Cooperation' part of FP7 to go to SMEs. This translates into more than €900 million - a significant sum of money indeed.

So far, however, despite making SMEs a priority, the EU has fallen well short of this target. Within health proposals, 10.8% of the budget is currently going to SMEs. For KBBE projects (Knowledge-based Bio-economy, covering food, agriculture, fisheries and biotechnology) the percentage is even lower, at 7.60%.

Thus, whilst the European Framework Programme has been a success for a large majority of the SMEs involved, with most of them defining such projects as networks of excellence, substantial improvements across a range of areas could and should still be made to increase the number of SMEs that participate, which in turn will help preserve and boost the vital contribution of innovative SMEs to the growth and competitiveness of the European economy.

The chance to collaborate with, and transfer knowledge between, different public and private research centres and other SMEs, and the prospects for greater visibility are seen as a real opportunity for participants. Similarly, the idea of being part of a long-term project with an effective reporting system and with attractive financial conditions, is perceived as an added value by most of the companies interviewed in EuropaBio's survey conducted among biotech SMEs who have previously participated in Framework Programmes. However, many SMEs still perceive the Framework Programmes as 'very complicated and labour intensive' way of accessing money. With this paper, EuropaBio's SME Platform would like to make some concrete suggestions towards changing the Framework Programmes into a more accessible and attractive format for SMEs – both in terms of perception and reality.

Introduction

Small and Medium-sized Enterprises (SMEs) are vital to the creation of innovative biotech products and processes; however, the financial crisis has highlighted the ongoing limited flow of capital to these companies, which is vital to ensure sustainability of the sector.

Even before the financial crisis, funding for biotech SMEs was different from most other SMEs, mainly because the financial risks these companies face reflect their unique challenges and circumstances. Commercialisation of biotechnology typically requires ever-growing access to capital, with long timetables to achieving value, and high risks along the way. The crisis has further aggravated an already serious situation.

Losing the contribution of these enterprises will have significant repercussions – not only for the biotech industry, but also for the competitiveness of the EU, and thus for Europe, as a whole. Put simply, we will suffer economically and competitively if we do not find a way to secure investment in biotech innovation, a sector which has been identified by the EU as key to leading Europe's economic recovery.

In May 2009, EuropaBio published the position paper entitled *Access to Finance: A Call for Action*, the purpose of which was two-fold: firstly, to identify and analyse the main difficulties faced by biotech SMEs and secondly, based on that, to issue a set of recommendations that could aid the industry in terms of getting better access to finance.

Of the five main recommendations identified, one was to make the EU Framework Programme for Research more attractive for biotech SMEs. The European Commission has recognised itself, in its recently published report¹ on the progress made under the Seventh European Framework Programme for Research (FP7), that progress towards reaching the 15% target for SME participation has fallen below expectations. Thus, there is clear and acknowledged room for improvement.

Whilst the Framework Programmes offer access to substantial sums of much-needed funding, many SMEs are still reluctant to participate in these often very large projects. EuropaBio's SME Platform set out to explore the reasons behind this reluctance through a questionnaire collecting information from a range of SMEs throughout Europe, including Estonia, France, Hungary, Italy, Spain, Sweden, The Netherlands and United Kingdom who have all participated in FP6 and/or FP7 projects,

Based on the outcome of the survey as well as other studies and information available, such as the Commission's own report on FP7 participation, the Platform then developed a set of recommendations, all aimed at improving and facilitating the participation of biotech SMEs in the current and future EU Framework Programmes for Research and Development.

¹ *Second FP7 Monitoring Report – 2009 – located at:*
http://ec.europa.eu/research/reports/2009/pdf/second_fp7_monitoring_en.pdf#view=fit&pagemode=none

Key recommendations: opportunities to improve SME Participation in Framework Programmes

On the following pages, you will find a range of concrete measures on how SME participation in FP7/FP8 could and should be improved and stimulated. For clarity, we have organised these recommendations into four main categories: **information**, **content of the calls**, **preparation of the consortia**, and **procedures**.

Information

The situation:

- Whilst very substantial improvements in facilitating SME involvement in the Framework programmes have no doubt been made in recent years, it appears that most SMEs are not aware of it - many of the SMEs in Europe remain **badly informed**, or are even **misinformed**, about the financial assistance available, the rules to apply for it and the conditions of assessment. This is a reason often cited for their hesitation to participate in large projects.
- We found that there is an important need for further advice for SMEs on how to prepare a proposal to maximise the chances of success. This needs to take into account the fact that most SMEs have a severely **limited capacity** in terms of human resources to deal with the necessary paperwork. Most SMEs clearly **need help** to navigate the system, to identify suitable options and to prepare good proposals.

Our proposals:

- Industry bodies, national biotechnology associations and other stakeholders should be enlisted to convey the changes and benefits of the Framework programmes.
- A majority of the interviewed SMEs find the CORDIS website maintained by the Commission difficult to navigate, especially as a first-time visitor. We would therefore suggest priority be given to re-designing and encouraging links to relevant industry and national governmental websites.
- There is a clear need for strengthened assistance **at national level** to help SMEs navigate the system, identify suitable options and prepare good proposals. This could be achieved via e.g the organisation of **workshops and seminars** and the development of a **local focal point** for relevant information.
- Practical aid, such as the involvement of an **external expert or advisor** with relevant experience reimbursed by national governments and the Framework Programme, who can assist in the preparation and implementation of projects would make a big difference.
- **Financial support available for the preparation of projects** is perceived as helpful in increasing the chances of a positive result. There are various initiatives at Member State level that offer this. Some examples are:
 - *In Sweden*, SMEs are receiving support via a specially dedicated service and as a direct consequence the fraction of applications for FP7 that are well written increases year on year.
 - Also *in Sweden*, SMEs can apply at the governmental agency VINNOVA for money specifically contributing to costs for pre-studies, writing and planning for a FP7 project (called SMINT).
 - *In the Netherlands*, “project builders”, who are specialists employed by the research funding bodies, have also proved to be helpful.

Content of the calls

The situation:

- A specific characteristic of the biotech industry is the long and costly innovation and development process before final commercialisation of a new product. To afford this work, young and innovative biotech SMEs need significant funding. However, the framework programme in its current form is **not designed to consider the long pre-profit phases** of biotech SMEs and these groups are therefore often facing significant funding gaps at critical stages of development in order to achieve commercial validation.

➤ **Proposal:** There should be a mechanism where projects which have met certain milestones successfully should have priority in gaining access to progressively larger funding in order to ensure a clear pathway to commercialization.

- Regarding the content of the calls two quite different opinions have arisen from our study:
 - One group found the content of the calls **too specific** and which therefore do not fit into the core activities of the SMEs.

➤ **Proposal:** The project proposals (calls) could be more closely aligned with the SMEs' core activities by **extending the areas** of research of the different calls and providing flexibility to fund promising projects in general areas of interest.

- However, others felt that extending the areas of research of the calls would not benefit SMEs, because returning to broad areas would encourage not only SMEs to apply, but also all other types of organisations, and the fear was that SMEs could very well be those losing out to for example academic institutions, through this increased competition.

➤ **Proposal:** A good way to improve SME participation could therefore be to **increase the number of topics 'dedicated to SMEs'** in each call. This would guarantee a certain part of the budget being used for SMEs.

Our proposals:

- In the long term we think that a new approach to the content of the calls is needed which puts more emphasis on a **market opportunity or a product's applicability** instead of focusing on an interesting problem or a piece of research. Research should be related to a definition of market need and pathway to commercialisation.
- A more coherent framework is needed which **addresses all phases of the innovation process**. FP7 could also be adapted with a scheme that ensures that **the transition** of successful projects **to the next module is more automatic** and the value of earlier investment is therefore captured and the development of new businesses is supported.
- To ensure that research ideas have enough funding to reach the phase of commercialisation there is a need for **increased funding in the pre-profit phases**, for example supporting feasibility studies with '*exploratory awards*' or '*innovation vouchers*'. This way FP7 could **fill the gap** between pre-competitive research and commercialisation of end-products.
- **More calls directed at SMEs with improved levels of funding** would be important. This would also mean that SMEs would be less dependent on including a big company to support projects.
- Databases and other tools from a given project are no longer updated once a project is finished. This clearly represents an inefficient use of existing resources spent on each project and therefore we strongly advocate for provisions to be made within the system to **keep using the infrastructure** already created by each project.
- SMEs' direct or indirect **involvement in the strategic planning** of the areas and themes of future calls should be increased which could result in their increased participation. SMEs viewpoints could be represented via the National Association and/or national focal points of the framework programmes. As an example:
 - *SwedenBIO's* EU Support Office collects feedback from Swedish SMEs and brings this to the National Programme Committee for FP7 Health which in turn communicates with the European Commission.

Preparation of the consortium

The situation:

- The study shows that it is difficult to find SMEs with a good network who are willing to coordinate a consortium, and that this is largely due to (perceived) **lack of time and/or resources** available to carry out the necessary administrative work.
- SMEs seem to be more willing to participate in **consortia that have fewer participants**, because this is **more manageable** for them.

Our proposals:

- The *Commission* could **create smaller consortia**. This could be a useful way to encourage more SMEs to take the role as coordinators. A consortium of even two organisations in two countries should be feasible and relevant to EU objectives if it would create the potential for cooperation which facilitates economic objectives of cooperation across member states.

Procedures

The situation:

- A fundamental problem identified in the study is the fact that the **time needed for the approval process** (from preparation of the proposal to final approval of the project) is often perceived as unacceptably long for SMEs.
- Furthermore, **delayed payments** often cause significant problems for biotech SMEs as these companies do not make any profit and have all of their funding invested in research. Therefore, critically, there is no extra 'pool' of money available to fill financial gaps.
- The issue of delayed payments, however, is sometimes the result of the **inexperience of coordinators** and is thus a complication created by the participants themselves, through the lack of provision of all contractual reports at the right time or in the right form.
- The study also shows that SMEs are facing issues with regard to **legal procedures**. There is a need for clear rules of engagement regarding IP transfer and transparent administrative procedures. In addition, there is often a lack of communication between the technical officers and the financial officers.

Our proposals:

- There is a need to **speed up** the approval process, in particular the **negotiation phase**. They are often perceived as unacceptably long for SMEs. Having "rolling" invitations and more flexible themes should help. However, with **improved communication** throughout the process, ensuring that participants are sufficiently informed, not only their perceptions could be changed, but the process could become much smoother as well.
- It is critical for biotech SME participation that **payment procedures are completed on time** and there is a need for action on both sides.
- **Workshops and seminars** organised by the Commission for **new coordinators** could largely diminish the problems of delayed payments.
- **Workshops and seminars** on legal and administrative procedures regarding **IP transfer** would also be very helpful.

Overview of Recommendations

AREA	THE CURRENT SITUATION	OUR PROPOSALS
Information	<p>the total amount of available information is still overwhelming and many SMEs remain badly informed or are even misinformed</p> <p>SMEs have very limited capacity and/or human resources to deal with all the administrative work</p>	<p>help project preparation with an external expert or advisor and with financial support</p> <p>workshops and seminars at national level and the development of a local focal point for relevant information</p> <p>re-design and/or reshuffle the content of the CORDIS website to make it more intuitive</p> <p>workshop and seminars organised by the Commission to help navigate the system</p>
Content of the calls	<p>the content of the calls is often too specific and does not fit into the core activities of the SMEs</p> <p>returning to broad areas would result in increased competition for SMEs</p> <p>the framework programme in its current form is not designed to consider the long pre-profit phases of biotech SMEs</p>	<p>align calls with the SMEs' core activities by extending the areas of research of the different calls</p> <p>increase the number of topics dedicated to SMEs in each call to guarantee a certain part of the budget is being used for SMEs</p> <p>new approach to the content of the calls: more emphasis on a market opportunity or a product's applicability</p> <p>address all phases of the innovation process and ensure that the transition to the next module is more automatic for successful projects</p> <p>improved levels of funding in pre-profit phases</p> <p>more calls directed at SMEs with improved levels of funding</p> <p>keep using the infrastructure created by previous projects</p> <p>increase SME's involvement in the strategic planning of the areas and themes of future calls</p>
Preparation of the consortium	<p>lack of time and/or resources to fulfill all administrative work makes SMEs reluctant to coordinate a consortium</p> <p>smaller projects are more manageable and thus more attractive to SMEs to take the role as coordinators</p>	<p>development of small projects directed towards generic development of knowledge to stimulate the cooperation between companies while keeping their involvement in the projects relatively manageable</p> <p>creation of smaller consortia to reduce the administrative work and build more efficient and substantial links between biotech sectors of different member states</p>
Procedures	<p>long negotiation phase and often ill-informed participants</p> <p>delayed payments often contribute to financial gaps</p> <p>inexperience of coordinators is often the primary reason for delayed payments</p> <p>issues with legal and administrative procedures regarding IP transfer</p>	<p>speed up of the negotiation phase and improved communication with participants throughout the process</p> <p>payment procedures should be completed on time</p> <p>workshops and seminars for new coordinators</p> <p>workshops and seminars on IP transfer</p>



The European Association for Bioindustries

About EuropaBio

EuropaBio's mission is to promote an innovative and dynamic biotechnology-based industry in Europe. EuropaBio, (the European Association for Bioindustries), has 66 corporate and 7 associate members operating worldwide, 4 Bioregions and 22 national biotechnology associations representing some 1800 small and medium sized enterprises.

About EuropaBio's SME Platform

EuropaBio's SME Platform focuses its activities on highlighting challenges and financial constraints that biotech SMEs face, and developing policy recommendations to optimise EU and member state funding instruments for biotech SMEs.

The SME Platform brings together CEOs of SMEs, National Biotech Associations, Venture Capitalists and private banks, European financial institutions, representatives from the EC, and other interested stakeholders.

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