Small and Medium-sized Enterprises (SMEs) are the creators of innovative biotech products and processes. The current financial crisis is effectively cutting the flow of capital to these companies. Losing this lifeblood will have significant repercussions — both the competitiveness of the EU and the future of the biotech industry as a whole will suffer 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.

Why should we worry about SMEs?
• In the EU, SMEs comprise approximately 99% of all firms and employ about 75 million people. Globally, SMEs account for 40% to 50% of GDP.
• Biotech SMEs are knowledge-based enterprises and provide the high value-added jobs that will help the EU achieve its goal of becoming the foremost knowledge-based economy in the world.
• Some of the best innovation happens in SMEs and these companies form what is described as a symbiotic relationship with large, multi-national companies across the healthcare, energy and agricultural sectors, paving the way for improved healthcare, clean energy and sustainable farming for Europe’s citizens.

The healthcare sector as an example
For the last 5 years, larger biopharmaceutical companies have tended to place greater reliance on external R&D, mostly performed by emerging SMEs. These externally-initiated programmes now represent as much as 30% to 50% of the pipeline for many major companies. If these SMEs do not survive then the R&D and potentially life saving treatments will either disappear or be significantly delayed, resulting in fewer innovative treatments reaching patients in dire need.

How hard are biotech SMEs hit by the financial crisis?
• According to recent figures published, around 20% of Europe’s biotech companies, the overwhelming majority of which are SMEs, could be gone within the next year if no immediate action is taken.
• Surveys conducted across Europe show how up to 78% of biotech SMEs have struggled and failed to find the investment they require to continue important R&D programmes.

Why is there such a big impact on biotech SMEs?
• The EU is working hard to develop policy tools to assist SMEs through the financial crisis, but those that have emerged or been announced so far are poorly suited to deal with the specific situation for biotech SMEs or are not being implemented effectively at national level.
• Young, innovative biotech SMEs are pre-revenue during their R&D phase, due to the high levels of investment in that R&D required and the costs of product trials for safety and efficacy that are required by law to develop a biotech product. This means that biotech SMEs need significant levels of funding to develop a product before commercialization.
• Even before the financial crisis, funding a new product often proved insufficient due to long and expensive development and approval procedures. This situation has now been further aggravated.
• Most biotech SMEs are funded by capital, rather than by cash flow. This means that when sources of capital dry up, as has happened in this current crisis, day to day funding for the biotech companies vanishes.

Did you know…
• More than 1 in 4 small biotech firms have less than 6 months cash in hand, and 45% of the publicly traded biotech SMEs have less than 1 year’s cash available. These firms rely on private equity sources for continuous growth funding, but the current financial crisis has made access to capital very difficult.
• Venture capital is one of the primary sources for risk investments in biotech start-ups, but the VC investment is declining, by almost 57% in 2008 compared to 2007. All forms of investment (including VC) raised by biotech firms decreased by 54% for the first nine months of 2008, compared to the previous year.

Overview of the main recommendations

1. Make the EU funding instruments more accessible to biotech SMEs by
   - Improving awareness of EIB loans and encourage take-up by (national) banks,
   - Setting up professional assistance for biotech SMEs in order to better inform them about the available funds,
   - Reconsidering the basis on which the Risk Sharing Finance Facility (RSFF) & EIB loans are granted to better suit the reality of biotech SMEs that are often not yet profitable.

2. The European institutions, such as the EIB, should develop a short term investment vehicle to increase risk capital for Venture Capitalists (in time of crisis)
   - By co-investing in existing VCs,
   - By co-investing with VCs in innovative biotech SMEs.

3. Make maximum use of the European State Aid rules in during the crisis by
   - Better informing the Member State policy makers of the exemptions for State Aid for Research, Development and Innovation, and the Temporary framework for State aid measures to support access to finance,
   - Looking into the possibility of making some of these measures obligatory – on a temporary basis - for the Member States,
   - Actively promoting and encouraging the adoption of the Young Innovative Company (YIC) tax status in all EU Member States.

4. Develop measures and opportunities to capture the value of research within Europe by
   - Developing grants for “translational research”, so the European economy can benefit from its own investment in research and innovation,
   - Developing specific grants for “Proof of Concept” studies for biotech SMEs,
   - Developing public/private funding schemes in Europe for demonstration projects.

5. Make the EU Framework Programme for Research more attractive for biotech SMEs by
   - Improving access for biotech SMEs by adapting FP7 consortium requirements and have more directed calls towards SMEs with better levels of funding, so that there is no need to include a big company to support the project,
   - Setting up specific grants for SMEs to finance research project designed to improve existing products or processes, or a demonstration project designed to prove the viability of new technologies in order to prepare commercialization,
   - Adapting FP7 with a graduation scheme to continue successful projects,
   - Speed up payment to SMEs to be in line with the Commission’s own proposal.

For more information on these recommendations, please see http://www.europabio.org/positions/white/PPPB_090527_sme_call_for_action.pdf