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From: Presidency
To: Delegations

Subject: Draft COUNCIL CONCLUSIONS ON "The European Court of Auditors' Special Report No 02/2020: *The SME Instrument in action: an effective and innovative programme facing challenges*"
- Presidency text

Delegations will find attached a Presidency text on the draft Council conclusions on the European Court of Auditors' Special Report No. 02/2020 "The SME instrument in action: an effective and innovative programme facing challenges" in view of the Research Working Party meeting currently planned for 16 March 2020.

Changes in relation to the previous version (6107/20) are indicated as follows: new text is in **bold** and deletions are in ~~strikeout~~.

Draft COUNCIL CONCLUSIONS on**The European Court of Auditors' Special Report No 02/2020: *The SME Instrument in action: an effective and innovative programme facing challenges***

THE COUNCIL OF THE EUROPEAN UNION,

- RECALLING that the European Council agreed to launch a new ‘*investment plan*’, which, given the importance of Small and Medium-Sized Enterprises (SMEs) for the economy, especially as regards job creation and innovation, introduced measures to support SME financing, in particular to support investments in countries with high youth unemployment¹;
- UNDERLINING that SMEs constitute the backbone of the European economy² and are the main source of economic growth and job creation in the Union; in particular, they contribute to job creation to the tune of 40 %³;
- RECALLING that, from the outset, the Horizon 2020 Framework Programme for Research and Innovation (Horizon 2020) and its Instrument for Small and Medium-sized Enterprises (SME Instrument) supported SMEs in developing and bringing to the market new products, services and business models that could drive the Union’s economic growth and job creation;
- NOTING that, as part of the Horizon 2020 work programme for 2018-2020, it was decided to pilot an enhanced European Innovation Council (EIC), aimed at generating market-creating innovation feeding into rapid scale-up of European enterprises, in particular SMEs;

¹ EUCO 104/2/13 REV 2.

² In 2016, an overwhelming majority (93.0 %) of the Union’s SMEs in the non-financial business economy were companies employing less than 10 persons (micro enterprises). Just 0.2 % of all enterprises had 250 or more employees (*Source* - Eurostat: <https://ec.europa.eu/eurostat/en/web/products-eurostat-news/-/EDN-20191125-1>).

³ *Source* - JRC: <https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/job-creation-europe-firm-level-analysis>.

- ACKNOWLEDGING that, ~~in line with the above,~~ the support provided by the SME Instrument has shifted towards high-risk, high-impact ideas, turning science into new business and accelerating the scale-up of 'game-changing' innovators shaping the future;
- NOTING that the enhanced EIC pilot combines the SME Instrument, the Future Emerging Technologies (FET), the Fast Track to Innovation (FTI) and Horizon 2020 Prizes, with the purpose of supporting the entire innovation chain, and acts as a "one-stop shop" to support European innovators;
- UNDERLINING that the **NCP network together with the** Enterprise Europe Network (EEN) 2014-2020, under the Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME), not only helps SMEs find business, technology and research partners in the Union and third countries but also promotes the Horizon 2020 funding relevant to SMEs;
- RECALLING the Council conclusions on the European Court of Auditors' Special Report No 20/2017: *EU-funded loan guarantee instruments: positive results but better targeting of beneficiaries and coordination with national schemes needed*⁴,

⁴ ST 7043/18.

1. WELCOMES the European Court of Auditors' Special Report No 02/2020: *The SME Instrument in action: an effective and innovative programme facing challenges*⁵;
2. UNDERLINES that the SME Instrument launched with Horizon 2020 constitutes a valuable ~~support~~ instrument enabling innovative SMEs and start-ups to carry out technical and commercial feasibility studies of business ideas **and further development activities** with the aim of developing innovations and bringing them to investment readiness and maturity for market take-up;
 - 2.a **STRESSES especially the effective support under this instrument to development and demonstration activities; INVITES the European Commission to build on the existing results in the next programming period;**
3. ~~ACKNOWLEDGES that the enhanced EIC pilot addresses a high demand for which no funding opportunities were available in Europe before;~~ INVITES the European Commission to further improve its communication and branding strategy, **including through the national contact points (NCPs)**, towards targeted start-ups, **scale-ups** and **other** SMEs about the funding opportunities, in particular in those Member States with the lowest level of participation;
4. NOTES a substantial resubmission of proposals that have already been rejected in previous calls, which represents an excessive burden and a financial cost for the evaluation process; INVITES the European Commission to design **the conditions in the call for proposals and also** an evaluation and selection process that would **efficiently address this issue** ~~limit the number of resubmissions~~ in order to free up resources which are currently used to re-perform evaluations;
5. TAKES NOTE of the benefits of including the jury interview stage in the selection process to ensure the identification of the best proposals; INVITES the European Commission to refine its selection procedure, notably by providing remote evaluators and jury members enough time to conduct their work, ~~and~~ setting up relevant information channels **between them, and assigning the appropriate type of experts to each stage of the evaluation;**

⁵ The Special Report is available in all official languages on the Court's website: <http://eca.europa.eu> (<https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=52862>).

6. EMPHASISES that the Union's financial support for SMEs aims to provide funding for innovative ideas that are risky and yield an uncertain return on investment; given that complexity, INVITES the Commission to strengthen the evaluation process to ensure ~~that projects do not~~ **avoiding the risk of** crowding-out private investment, **while acknowledging the possible crowding-in effect generated by the EU grant**;
7. NOTES that, whilst there is overall coherence between the financial instruments under the programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) and Horizon 2020, greater efforts could be deployed at **local, regional**, national and EU level to identify and promote synergies with EU financial instruments in order to provide more targeted support to SMEs; CALLS ON the European Commission to ensure effective synergies between all programmes and instruments addressed to SMEs;
8. ~~RECOGNISES~~ **TAKES NOTE of the Commission's replies accompanying the Special Report, in particular** that the creation of the Seal of Excellence for excellent proposals which could not be awarded an SME instrument grant constitutes a concrete step towards building synergies with national ecosystems supporting innovation; INVITES the Commission and the Member States to promote the recognition of the 'Seal of Excellence' label;
9. HIGHLIGHTS ~~that there is a strong~~ **the** correlation between a country's innovation performance, the ~~presence~~ **activity of an active national and/or regional innovation agency (NIA) support structures** and funding received under the Horizon 2020 SME Instrument; CONSIDERS that outreach and communication with stakeholders, including via ~~National Contact Points (NCPs)~~, contributes significantly to a higher success rate; **INVITES the Commission to ensure operational support to the network of NCPs from the beginning of the next framework programme**;
10. URGES the European Commission to take into account ~~both~~ **the recommendations of the** European Court of Auditors' Special Report No 02/2020: '*The SME instrument in action: an effective and innovative programme facing challenges*', ~~its recommendations and the abovementioned elements~~ when implementing programmes and instruments ~~addressed to~~ **supporting innovation in SMEs.**