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To: Delegations

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Subject: The European Court of Auditors' Special Report No 02/2020 "The SME Instrument in action: an effective and innovative programme facing challenges"
- Council Conclusions

Delegations will find attached in the annex the 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", adopted by the Council by written procedure on 26 May 2020.

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 SMEs are central to the EU’s twin transitions to a sustainable and digital economy, and bring innovative solutions to challenges like climate change, resource efficiency and social cohesion;⁴
- 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 innovative SMEs in their development, growth, internationalisation in all different types of innovation and in bringing to the market new products, services and business models that could drive the Union’s economic growth and job creation;

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>.

⁴ COM (2020) 103 final.

- 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;
- ACKNOWLEDGING that the support provided by the SME Instrument has shifted its focus 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*⁵;
- RECALLING the Council conclusions on the European Court of Auditors' Special Report No. 28/2018 *The majority of simplification measures brought into Horizon 2020 have made life easier for beneficiaries, but opportunities to improve still exist, specifically the recommendation on the Seal of Excellence applicable to the SME Instrument.*⁶

⁵ ST 7043/18.

⁶ ST 7420/19.

1. WELCOMES the European Court of Auditors' Special Report No 02/2020: *The SME Instrument in action: an effective and innovative programme facing challenges*⁷;
2. UNDERLINES that the SME Instrument launched with Horizon 2020 constitutes a valuable instrument enabling innovative SMEs and start-ups to carry out technical and commercial feasibility studies of business ideas and further development activities, such as market-testing, with the aim of developing different types of innovations and bringing them to investment readiness and maturity for market take-up;
3. STRESSES the effective support under this instrument to development and demonstration activities; TAKES NOTE of the recommendation to preserve a scheme similar to Phase 2 and INVITES the European Commission to build on this in the next programming period;
4. RECOGNISES the value of coaching and business acceleration services which are tailored to the needs of the beneficiaries;
5. 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 innovative SMEs about the funding opportunities, in particular in those Member States with the lowest level of participation;
6. 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, where appropriate, in order to free up resources which are currently used to re-perform evaluations;

⁷ 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>).

7. 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 guidelines and enough time to conduct their work, setting up relevant information channels between them, and assigning the appropriate type of experts to each stage of the evaluation;
8. 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 avoiding the risk of crowding-out private investment, while acknowledging the crowding-in effect generated by the EU grant;
9. 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, including ESIF, in order to provide more targeted support to SMEs; CALLS ON the European Commission to ensure effective synergies between all programmes and instruments targeted at SMEs;
10. 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 step up efforts to operationalise and further promote the recognition of the 'Seal of Excellence' label;

11. HIGHLIGHTS that there might be a correlation between a country's innovation performance, the activity of national and/or regional innovation support structures and funding received under the Horizon 2020 SME Instrument; CONSIDERS that outreach and communication with stakeholders, including via NCPs, contributes significantly to a higher success rate, alongside other measures to counteract lower levels of participation; INVITES the Commission to ensure operational support for the network of NCPs from the beginning of the next framework programme, follow closely the success rates of countries and, if necessary, implement improvements specifically targeting innovative SMEs;
 12. URGES the European Commission to take into account 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*' when implementing programmes and instruments supporting innovation in SMEs.
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