

A new direct measure to help R&D results become innovations more efficiently

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There are several routes which all have the one target of raising the EU's R&D expenditures to 3 % of GDP by 2010.

The EUROMAPLIVE consortium proposes a step-change, a new measure which can be implemented in a pilot phase as part of Framework Programme VI.

This measure addresses the following issues:

- ✓ There is clear evidence, both in the USA and Europe, that the early life of innovative technologies is favoured by a mix of public and private funding.
- ✓ This mix of public and private funding is urgently needed in Europe both to raise the R&D intensity of SMEs² and to exploit commercially through start-ups and SMEs the inventions born in public research programmes³.
- ✓ The required behaviour change – more innovations by SMEs research results, at a faster pace – must be encouraged, while recognising that innovation is no longer a linear process, since it involves networks and collaborative linkages, especially for SMEs that are not proficient enough at performing R&D on their own.

The proposed measure is a new grant system, with supporting services to help SMEs and start-ups implement viable R&D-based business models and develop the related innovative technology. This grant system acknowledges that risks exist all along the way from research to an innovation business, and that they would be faced more efficiently by public and private partnerships. **The step-change is then to focus on the business and not only on the R&D.**

This grant is allocated using a two-step procedure:

- ✓ **Step I:** a first, simple proposal is submitted using an easy procedure based on a clear template which will be evaluated by a European team of experts having technical, market, financial and innovation management competence. Local intermediaries will support proposal preparation and filter out inappropriate proposals. The evaluation criteria should be based on expected growth and profits and the requirements of the market, while favouring EU policy objectives.

¹ This work is performed by the EUROMAPLIVE consortium (I.CON. INNOVATION, BANCA DI ROMA, OXFORD INNOVATION, ASESORIA ZABALA, ASCENT, TECHNOFI).

² In the manufacturing sector only, SMEs in the USA spend seven times more on R&D funding than their counterpart in Europe.

³ Even though public spending on R&D reaches the same percentage of GNP in the USA and Europe, the USA is more efficient at transforming inventions into innovations because of its private sector willingness to invest in R&D.

If selected, the costs of building a full development proposal, based on additional proof of concept experiments, further market analysis or negotiations with external investors are fully covered, up to a maximum amount of 200.000 Euros for a duration not exceeding 12 months.

- ✓ **Step II:** a complete detailed business plan produced following the work funded by Step I is submitted through local intermediaries. The evaluation criteria are then weighted to reinforce the financial soundness of the business models, favouring formal funding deals signed with external investors. Investors can be large industrial groups, investment funds, banks, venture capitalists and even public bodies willing to anticipate innovative approaches to future public procurements. If selected, a grant to the project is allocated by the EC to cover qualifying innovative technology development, with a maximum value of 2.000.000 Euros over three years to complement the private investment. The use of public funds is continuously monitored, in order to adjust for possible evaluation errors, thus further optimising the efficient use of public funds.

This new approach to R&D funding in SMEs must be located within a well structured “market place” having a European dimension.

This market place is made up of four concurrent processes:

- ✓ **A compliance process**, which accredits local intermediaries supporting STEP I and STEP II: this accreditation is based on training and knowledge of the evaluation guidelines, which will contribute to a common level of selection across Europe.
- ✓ **An evaluation process**, managed by a team made up of public and private experts both local and EU-wide. The evaluation criteria take into account technical, market, financial and management risks with different weightings used in STEP I (a priority is given to compliance with EC development orientations) and in STEP II (a priority is given to the links with appropriate funds to reach market applications).
- ✓ **A matching process** whereby STEP I funded projects can find investors: business models that are funded by the EC are described in a “hub” and connected actively with investors looking for opportunities in their area of expertise. This process aims at speeding up deal closing (equity, loans, or any other appropriate financial instrument) before entering the STEP II evaluation. It thus increases the probability of getting EC support .
- ✓ **A monitoring process**, whereby, during Step II, experience in operating the grant scheme can be gathered and used to improve both the processes and the people using it.

The following table provides a process overview with a task attribution to different levels:

	Deal flow generation	Evaluation	Financing	Project execution / monitoring
European Commission	<ul style="list-style-type: none"> • Call for proposals • Results from past EC programmes 	<ul style="list-style-type: none"> • Approval of evaluation standards • Decision to finance selected proposals 	<ul style="list-style-type: none"> • New EC grant scheme with 2-step funding procedures (combining public and private finance in Step II) 	<ul style="list-style-type: none"> • Payment of grants dependent on project monitoring
EUROMAPLIVE 'Market Place'	<ul style="list-style-type: none"> • Accreditation of local intermediaries 	<ul style="list-style-type: none"> • Evaluation and recommendation of applications submitted at the local level • Quality audit of local intermediaries 	<ul style="list-style-type: none"> • Step-I funded business models are actively linked to investors through the hub 	<ul style="list-style-type: none"> • Procedures for monitoring • Quality audits of monitoring teams
Regional/local level	<ul style="list-style-type: none"> • Support for deal flow generation • Interface research / SMEs and start-ups 	<ul style="list-style-type: none"> • Pre-evaluation of new business models • Support for SMEs in submission of proposals 	<ul style="list-style-type: none"> • Local access to the EC grant scheme ('one stop shop') • Co-financing from investors linked to the EUROMAPLIVE hub. 	<ul style="list-style-type: none"> • Monitoring the STEP II development project • Support for business development

This new grant system and its parent market place address several key issues:

- ✓ It is a very flexible measure, which leaves the entrepreneurs and the investors prepare a business plan based on private negotiation. It is their initiative to propose to the EC the amount of grant needed to cover qualifying R&D (up to 2.000.000 Euros in STEP II). It leaves the EC the freedom to choose the amount of public funding (both in terms of policy priority and fund allocation)
- ✓ Compared to the indirect support provided through the re-financing of seed capital funds, allocating a direct public grant to SMEs or start-ups strengthens the of entrepreneurs towards investors, improves the equity ratio of the firms, provides strong incentives for potential business founders, ensures that the early-stage finance gap is truly addressed and does not require more administrative efforts
- ✓ It helps to substitute guarantee systems which in several Member States slow down the development of new business based on research results.
- ✓ For projects in STEP II which could not find EC support because of a lack of funding, the supporting Member States or regions have the opportunity of funding these business models through national or regional grants.
- ✓ It recognises that risk and uncertainty in the development of new business models lie not only at the R&D stage but also at the commercialisation stage: by giving a priority to business models with links to external investors, it encourages the early cooperation between entrepreneurs and investors in facing all the risks
- ✓ The evaluation made by technical, market and financial experts at STEP I provide the investor community with a positive level of assurance about the viability of the opportunity.
- ✓ The scheme is open to any type of SME business activity, whether start-up, single company, EEIG or consortium. It will operate through local intermediaries who will

help to prepare the proposals within the quality standards set forth by the EUROMAPLIVE consortium. The transparency of these criteria introduces a competition scheme at EC level, which has already shown key advantages in generating new businesses in several Member States (UK, Germany, France)

- ✓ It better integrates different dimensions of the European research and innovation system, including deal flow generation/ evaluation of business models / early stage financing / monitoring of the use of public grants; coherent rules for European, national and regional governance.

Among the factors that will ensure the success of this new measure are:

- ✓ The setting up of a private organisation structure for the management of the new scheme which will ensure a smooth integration of private financiers.
- ✓ The scheme is able to address two extremes: business models involving consortia with several SMEs, and single companies.
- ✓ The bank guarantees to allocate the grant to SMEs or start-ups are no longer required.
- ✓ The setting-up of local intermediaries is encouraged to improve the access of single SMEs or consortia to EC funds.
- ✓ A quality system setting the framework rules for the evaluations performed within this grant allocation system, is implemented
- ✓ tThe new grant scheme is deployed with wide support of national public bodies and investor associations throughout Europe.