



IST Programme

Report of the IST Advisory Group concerning

‘SME Participation in IST under FP6’

28th May 2001

ISTAG recognises that the ‘Integrated Project’ will have the central RTD role in FP6. ISTAG also recognises ⁽¹⁾ the significant role that Small and Medium Enterprises (SMEs) play in European competitiveness, and their potential contribution to realisation of ‘eEurope’. ISTAG therefore considers it essential to ensure that SMEs maintain a high-level of participation within FP6, as they have done within the IST programme under FP5. SMEs have no coherent voice in the process of the definition of FP6. Consequently, ISTAG has decided to take the responsibility of ensuring proper representation of the interests of IST-SMEs, and to provide ongoing analysis and recommendations to maintain and expand the role of IST-SMEs in FP6.

Background

The role of SMEs

The proliferation and growth of Small and Medium Enterprises is central to the EU industrial policy for the IST sector. SMEs play a vital role in the creation of economical competitiveness by virtue of their unique R&D focus and capability to take fast technical and business decisions, making them very efficient organisations for the transformation from vision and innovations into business assets. SMEs form an essential part of the continuum from academic institutes to big companies – a continuum which is necessary for the competitive market to operate effectively.

SMEs in the IST sector see the IST Programme as the major significant source of high-risk early-stage development financing in Europe – financing that cannot easily be obtained from Europe’s venture capitalists. In addition, in order to operate outside their local market they need to build strategic partnerships, a process that is well-served by the IST Programme. The significance of the IST Programme for SMEs is shown by the level of participation of SMEs in the FP5 IST segment, where they participate in projects of all sizes:

- *more than 60% of contracts involve at least one SME*
- *about 25% of total funding is taken by SMEs*
- *about 25% of all participating contractors are SMEs*

⁽¹⁾ This ISTAG report has been prepared by a working group of ISTAG members that held a workshop with a

SMEs have a strong involvement in RTD projects and are more than just marginal partners. Typically they are committed to innovation – not just research.

Barriers to participation of SMEs in FP5

SMEs have identified several barriers to participation:

- The lack of adequate protection for intellectual property of SMEs in the environment of larger partners and larger projects;
- The requirements for ‘financial viability’, which are based upon a concept of ‘net worth’, which in turn is currently calculated from a valuation of tangible assets. This is not appropriate for an innovative knowledge-based SME. In the worst case, the requirements preclude participation by the kind of company which we wish to encourage; and in general the checks and guarantees introduce both delays and significant additional costs to those companies.
- The financial viability requirements are insurmountable in the case of start-up companies which are not able to present a 3-year financial history or track record.
- The administrative processes are damagingly over-lengthy and over-costly, from initial proposal submission through contract approval to payment of cost claims.
- SME cannot easily absorb or comprehend the complex programme descriptions and procedures.
- During FP5 the ‘Exploratory Award’ mechanism has enabled SMEs to prepare for participation in RTD projects. However, the processing of Exploratory Awards has been excessively lengthy.
- The CRAFT Programme is focused on SMEs who wish to outsource RTD. This is of limited value to many IST SMEs with significant in-house technical competence.

Risks for maintaining SME participation in FP6

SMEs believe that the proposed changes to the available instruments for FP6 could have a dramatic negative effect on their future participation. In particular:

- The top-down approach that is basic to the concept of an Integrated Project could put the SMEs in the position of suppliers of sub-contracted labour, rather than as innovators and the source of economic growth.
- The expectation of an overall increase in project size in FP6 could also lead to marginalisation of an SME's role in a project, given their limited human and financial resources. This effect has already been observed in FP5: where the size exceeds €3M - €5M, SME participation rapidly diminishes.
- The short time-to-market requirements of most SMEs will be incompatible with the intended shift in FP6 to longer-term RTD via larger Integrated Projects.
- The excessively lengthy processing of Exploratory Awards during FP5 has become so apparent that it is now planned to abandon them.

Recommendations

ISTAG believes that FP5 served as a major tool for the growth of SMEs in the economy of the EU.

ISTAG recommends removal of the barriers described and mitigation of the potential risks to SME participation in FP6.

ISTAG therefore proposes the following specific recommendations:

- Ensure that the implementation of the ‘Integrated Project’ instrument accommodates ‘bottom-up’ SME-led projects to advance novel ideas. Such projects will typically be smaller (several million euros) and have a short time to market. This might be achieved within a framework of a cluster of such smaller projects bound together by a unified set of objectives.
- Revise the approach to assessment of financial viability of contractors, giving special consideration to SME’s and start-ups, to recognise that the value of knowledge-based companies is in their intellectual assets, rather than physical assets.
- Revise contractual requirements so as to help SMEs protect their intellectual property. This may also require formalisation of the ‘Consortium Agreement’ to ensure equitable exploitation potential when projects are completed.
- Establish a fast-track process for small projects, in particular if coordinated by SME’s. This should include a commitment to an 80-day process from proposal submission to contract.
- Establish a mechanism whereby information gathered during proposal evaluation and project review may be used by companies when approaching potential investors.
- Establish a mechanism or modify one to ease first-time participation by SMEs in core RTD activities. For example, retain Exploratory Awards in FP6 (if the process of evaluating and granting awards can possibly be shortened).
- Strengthen national and regional support for SME’s, perhaps building on the roles of the National Contact Points and the Innovation Relay Centres.