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Design Option Paper for the use of the SoE at national level

Deliverable 4.2

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Executive Summary:

This deliverable represents the main output of the SME-Sealing project, a peer-learning project undertaken by three national innovation agencies in Europe, namely TEKES from Finland, Enterprise Ireland from Ireland and CDTI from Spain which **aims to develop routes of valorisation at national level of the Seal of Excellence (SoE) of H2020, currently issued for SME instrument projects phase 2.**



Centro para el
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The Centre for the Development of Industrial Technology (CDTI) is a Spanish public organization under the Ministry of Economy, Industry and Competitiveness devoted to increase the technological profile and competitiveness of Spanish companies



where innovation means business

Enterprise Ireland is the state agency responsible for supporting the development of manufacturing and internationally traded services companies.



TEKES – the Finnish Funding Agency for Innovation is the main national organisation to provide public funding for research, development and innovation in Finland

CDTI delivers more than 1000 R&D projects/year typically through partially non-refundable loans (1000M€) and co-invests in several VC vehicles covering most of the across company lifetime. CDTI manages the Spanish participation in international programmes of technological cooperation acting as national delegate and NCP within H2020 for Societal Challenges and Industrial Leadership areas.

Enterprise Ireland provide funding and support for companies to expand their activities, improve its efficiency and grow internationally and to researchers to develop, protect and transfer their technologies into industry. Enterprise Ireland has offices and affiliate consultants in over 60 countries ready to work on their clients behalf to help them win tech and commercial deals worldwide.

TEKES finances annually 1,500 business R&D projects (400M€ budget). It has approx. 400 employees, 90 of them working in the Centres for Economic Development, Transport and the Environment in 14 cities across Finland. TEKES coordinates the Finnish network of the Horizon 2020 National Contact Points, 15 of whom are located in TEKES.

Due to the nature of the SME instrument rationale we have to assume that the SME instrument offer will be always unbeatable from a number of perspectives (funding rate, advance payment, grant absolute sum); however, for some type of businesses, the SoE label offers still some intervention possibilities for national/regional agencies worth to be tested to give a tangible dimension to the SoE concept in terms of supporting their business growth.

These interventions (defined as value propositions within the project logic) have been defined according to the SoE holders' needs and therefore aim to think further that the obvious short term vision of "I need the funding".

This deliverable has therefore to be considered as a mind-map to design SoE based support programmes at national or regional level, not only considering direct funding alternatives but also service provisions that could enable SMEs to become stronger business cases.

Project background information.

The **Seal of Excellence (SoE)** is an initiative launched at European level in October 2015 that aims to foster synergies between H2020 and other funding resources, mainly at regional and national level. The idea behind **this SoE** is to **offer a gateway to companies and organizations across Europe that apply to the Horizon 2020 Programme** and despite of meeting all the stringent thresholds of the calls, they **cannot be funded due to the lack of available budget**.

The first instrument where the Seal of Excellence has been implanted is the H2020 **SME instrument**. This instrument **aims to support highly innovative SMEs with international ambitions, determined to turn innovative business ideas into winners on their market**. The instrument provides full-cycle business innovation support from the stage of business idea conception and planning (phase 1, lump sum grant of 50,000€) over business plan execution and demonstration in close to market conditions (phase 2, 0.5-2.5 M€ with a grant intensity of 70%) to commercialisation (phase 3 without funding).

If the SoE concept does not foresee any tangible offer, then the SoE has no real added value.

Although this instrument has been selected because project proposals are mostly led by a single SME, its phased approach offers several slots of intervention and has a clear territorial impact, its closeness to market approach in phase 2, probably the highest within H2020, is a real challenge for national and regional authorities funding mechanisms.

In this context, this **Seal of Excellence linked to the SME instrument proposers offers** a clear added value to national and regional authorities as **a reliable selection of promising companies with international ambition**, meriting an

European funding but unable to achieve it, but still worth to be supported. However, if this SoE concept does not foresee any tangible offer, that is, opens a company a growth possibility not available without the SoE, then the SoE has no value at all.

For the phase 1, a number of countries and regions have already been able to launch at national or regional level¹ support mechanism for the SoE phase 1 holders, mainly channelled through the “de minimis” regime². In fact, within the knowledge already available in the Seal of Excellence Community of Practice³ set up by the Commission in November 2015, any region at European level would be able to implement a support mechanism to use the Seal of Excellence for the SME instrument phase 1.

For the phase 2, the expected Technology Readiness Level of TRL 6 at proposal stage and the unbeatable offer of the SME instrument (70% funding rate as a grant plus a high advanced payments), confronts with the support provisions defined within the Framework for State aid for Research, Development and Innovation and its General Block Exemption Regulation (GBER)⁴.

¹ http://ec.europa.eu/research/regions/index.cfm?pg=soe_cases

² http://ec.europa.eu/competition/state_aid/legislation/de_minimis_regulation_en.pdf

³ <http://ec.europa.eu/research/regions/index.cfm?pg=soe>

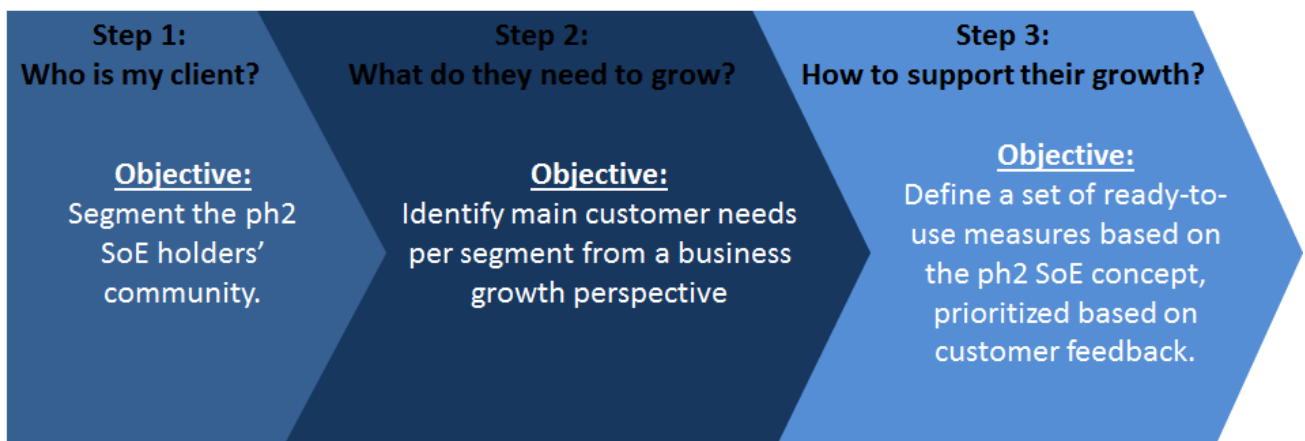
⁴ http://ec.europa.eu/competition/state_aid/legislation/gber_regulation_en.pdf

Although The COM has launched an explanatory note on the application of State Aid Rules for schemes that offer alternative support to SME Instrument with a H2020 'Seal of Excellence'⁵, the ambition of this project has been wider: It aims to **explore feasible and relevant ways of adding tangible value to the SoE for the SME instrument phase 2**, either through direct or indirect funding mechanisms or programmes but also with value-added services from a growth perspective point of view.

This project has been approached from the understanding that **we, as innovation agencies, have to be able to provide an attractive value proposition to our clients; that in this case are the holders of a SoE for SME instrument phase 2.**

In that respect, we have used the peer learning advanced methodology proposed by the topic to approach the proposal from a business modelling perspective, where the innovation agencies are the “business” and the holders of a SoE for ph2 are the “clients”, for whom we need to reach a reasonable market-fit with our “offer”. The project has been implemented by a small group of national innovation agencies (CDTI (ES), Enterprise Ireland (IE) and TEKES (FI) with a long tradition of collaboration among them, a strong know-how on the SME instrument and in charge of national programmes in support of SMEs through grants, loans and/or equity. However, **the Design Option Paper herein presented, has the spirit to offer “plug and play” solutions fully usable by any national or regional agency across Europe**, channelling the results of this project through the Seal of Excellence Community of Practice set up by the Commission.

The structure of this Design Option Paper mimics the three-steps-approach followed by the project, and defines an easy-to-use guide to offer SME ph2 SoE-based support at national or regional level.



These three steps can be described as:

Step 1: Who is my client?

Objective: Segment the client base (ph2 SoE holders' community) and map the typical approaches of interaction between agencies and SME customers to incorporate the SoE logic.

⁵ SWD (2017) 11. Explanatory note of the Commission services on the application of State Aid Rules to national and regional funding schemes that offer alternative support to SME Instrument project proposals with a Horizon 2020 'Seal of Excellence'

This chapter comprises the most relevant variables to segment the SME instrument ph2 holders, considering not only project information but also agency engagement models. This chapter will allow national or regional agencies to clearly typify their ph2 SoE holders community using the concept of the “SoE Dossier”.

Step 2: What do they need to grow?

Objective: Identify main customer needs per segment from a business growth perspective and define potential ways to support them.

This chapter summarizes the main user needs extracted per each of the client segments identified, based on a series of representative real cases analysed through the project. The matrix presented in this chapter allows national or regional agencies match feasible ways to tackle each of the identified user needs per segment type, offering them a quick checklist of elements to consider when designing each of the support measures identified.

Step 3: What can I offer them to support growth?

Objective: Define a set of ready-to-use measures, presented in a programme-like format based on the customer feedback collected in the project.

This chapter includes a set of programmes-like fiches, contrasted already with potential clients, to launch SME instrument ph2 SoE based programmes to support the different dimensions of the SME growth.

These fiches do not only consider direct funding options for companies but also alternatives to strengthen their business cases on a wider scale. In that respect, they clearly define how national or regional agencies can take benefit of the SoE concept and offer them different plug-an-run implementation pathways.

1 Step 1: Who is my client?

1.1 What do I know from my clients? Expanding the SoE to capture key information .

1.1.1 What the Seal of Excellence DOES evaluate, but can be explicitly expressed in the SoE?

The evaluation of the SME instrument in H2020 is done by four external experts based on their individual expertise. It covers a wide set of evaluation criteria without any interaction neither with the company nor with the support of any external official source of extra information. (i.e. official account records). The evaluation covers the three standard criteria evaluated under H2020 (impact, excellence and implementation), however it considers a detailed set of sub-criteria that are individually scored. To obtain the Seal of Excellence, the proposal has to meet the individual threshold per criterion (4 out of 5 in “impact”, 3 out of 5 in “excellence” and in “implementation”) and score above the overall threshold of the call, which is (so far until 2017) 12 out of 15 points.

Getting a SoE in this call means that the SME has a relevant market opportunity, its business model is sound and its plan of implementation is feasible.

The individual evaluation of these sub-criteria, reported to the proposers in the evaluation summary report (ESR), provides the company with a very complete and valuable analysis of the proposal from many complementary angles, as shown in the next table.

Operational Capacity	Y/N
Criterion 1- Impact	4/5
The proposal indicates in a convincing way that there will be demand/market (willing to pay) for the innovation when the product/solution is introduced into the market	
The targeted users or user groups of the final product/application, and their needs, are well described and the proposal provides a realistic description of why the identified groups will have an interest in using/buying the product/application, compared to current solutions available	
The proposal provides a realistic and relevant analysis of market conditions , total available market size and growth rate, competitors and competitive solutions and key stakeholders, clear opportunities for market introduction.	
It is described in a realistic and relevant way how the innovation has the potential to boost the growth of the applying company	
The proposal demonstrates the alignment with the overall strategy of the participating SME(s) and the need for commercial and management experience, including understanding of the financial and organisational requirements for commercial exploitation as well as key third parties needed	

The innovation /solution has a clear European dimension both with respect to commercialisation and with respect to competitor /competition evaluation	
The strategy plan for commercialisation is described in a realistic and relevant way , including approximate time to market/deployment. Activities to be further developed after phase 2, including additional dissemination measures, are well outlined.	
Measures to ensure "freedom to operate" (possibility of commercial exploitation) are realistic and there is a convincing strategy of knowledge protection , including current IPR filing status, IPR ownership and licensing issues. Regulatory and/or standard requirements are well addressed	
Criterion 2 – Excellence	3/5
The innovation aims new market opportunities addressing EU/global challenges	
The included feasibility assessment demonstrates the technological/practical/economic viability of the innovation.	
The proposal provides a realistic description of the current stage of development (TRL 6 or similar for non-technological innovations) and added value of its innovation as well as very good understanding of the competing solutions. Includes good comparison with state-of-the-art, known commercial solutions, including costs, environmental benefits, gender dimension, ease-of-use and other features	
The objectives for the project as well as the approach and activities to be developed are consistent with the expected impact (commercialisation/deployment). Specifications for the outcome of the project and criteria for success are well defined	
The expected performances of the innovation are convincing and have the potential to be relevant from a commercial point of view (Value for money). It is potentially better than alternatives	
The proposal reflects a very good understanding of both risks and opportunities related to a successful market introduction of the innovation , both from a technical/commercial view.	
Criterion 3 - Quality and efficiency of implementation	3/5
The proposal demonstrates that the project has the relevant resources (personnel, facilities, networks, etc.) to develop its activities in the most suitable conditions. If relevant, describes in a realistic way how key stakeholders / partners / subcontractors could be involved and why and how they were selected (subcontractors must be selected using best value-for-money principles). (Where relevant/) Participants in a consortium are complementary	
The team has relevant technical/scientific knowledge/management experience, and a very good understanding of the relevant market aspects for the particular innovation. If relevant the proposal includes a plan to acquire missing competences, namely through partnerships or subcontracting (subcontractors must be selected using best value-for-money principles)	
Taking the project's ambition and objectives into account, the proposal includes a realistic time	

frame and a comprehensive implementation description	
The WP descriptions and major deliverables and milestones are realistic and relevant, including appropriateness of the allocation of tasks and resources, risk and innovation management	
Total Score	12/15

Table 1: Evaluation summary report questions for a SME instrument phase 2.

Scoring above the threshold for this instrument in this call, (and therefore receiving a SoE) will mean that the company:

- has a **relevant market opportunity** and is able to describe it properly.
- its **business model is sound** and its monetization routes are realistic.
- its **plan of implementation is feasible** and coherent with the expected outputs.

However, these conclusions are not obvious for people who do not know the H2020 SME instrument rationale just reading the Seal of Excellence.



“The project proposal (TITLE) submitted under the Horizon 2020’s (CALL) of (DATE) in the area of (TOPIC) by (COMPANY) and other participants (see the back of the document) following evaluation by an international panel of independent experts

WAS SUCCESSFUL IN A HIGHLY COMPETITIVE EVALUATION PROCESS* AS A HIGH QUALITY PROJECT PROPOSAL.

This proposal is recommended for funding by other sources since Horizon 2020 resources available for this specific Call were already allocated following a competitive ranking.”

Figure 1: Current SoE wording.

As the current wording included in the Seal of Excellence lacks the actual framing information of this evaluation process, when you ask different outsiders of the SME instrument on the “excellence” of the Seal of Excellence, three questions arises:

- 1) What is it mean by **“successful”**?
- 2) How **“stringent”** were the criteria?
- 3) How **“competitive”** was the process?

To cope with such elements, the next self-explanatory text is proposed to be included in the SoE dossier:



“The project proposal (TITLE) submitted under the Horizon 2020’s (CALL) of (DATE) by (COMPANY) (see the back of the document for company details) following evaluation by an international panel of independent experts

WAS RANKED X out of the XX PROPOSALS presented in the area of (TOPIC), scoring 13.8 out of 15 in THE EVALUATION PROCESS

This proposal is recommended for funding by other sources since Horizon 2020 resources available for this specific Call were already allocated to the highest-score Y projects, following a competitive ranking.

Figure 2: Wording for the SoE within the SoE dossier.

1.1.2 What the Seal of Excellence does NOT evaluate and can be integrated in the SoE?

Although the company projections are indeed evaluated within the evaluation criteria, its operational capacity to undertake the project is evaluated only under a YES/NO scenario. Considering also that individual SME instruments are exempted from the Financial Viability Check (90% of the cases), it means that the Seal of Excellence does trust the company on an implementation based on 70% grant but it gives to information **on the viability of such implementation with the lower grant intensities that could be available with national or regional funds.**

Having benchmarked the financial evaluation conducted in each of the agencies in the consortium, it can be concluded that this process is always based on the official documents from the company (in terms of annual accounts) and used to be related with the project budget requested.

With this heterogeneity in mind, including a preliminary financial situation of the company within the Seal of Excellence can only be build based on a H2020 procedure⁶, and as such, the financial viability check procedure has been found to be more relevant for that. It is based on the balance sheet and profit and loss accounts from the company and has a self-check tool available on line.⁷

⁶ http://ec.europa.eu/research/participants/data/ref/h2020/grants_manual/lev/h2020-guide-lev_en.pdf

⁷ <https://ec.europa.eu/research/participants/lfv/lfvSimulation.do>

This procedure calculates per company five financial criteria for: liquidity, financial autonomy, profitability and solvency. With these ratios, financial viability will normally be considered positive if the company obtains more than four points (‘acceptable’ 4-5- ‘good’ 6-10) and it will be considered negative if the company obtains 0 “insufficient” or 1-3 “weak”. In that ranking, all newly established entities that have not yet closed any accounts will be always “weak”.

Therefore, to have preliminary information of the company directly linked to the SoE, in the rear part of the SoE certificate, the following table could be added:

Company info			
Company Name		Country of registration	
Company Age		Company n° FTE Employees	
Company Turnover		Company Balance	
Financial Viability Check Result (based on self-assessment)			
0-10	Insufficient-Weak / Acceptable / Good		

Table 2: Company dimensions table (rear part of the SoE dossier).

1.2 How can I segment my client base?

1.2.1 Variables that limit the offer:

Since national and regional Agencies need to comply with the State Aid regulation⁸ and its General Block of Exceptions Regulation⁹ (GBER) when supporting companies, there are 3 elements that may limit the possible offer.

- **Company age:** Within such regulations, there are special provisions for companies below 5 years. Article 22 of GBER (Aid for start-ups) considers eligible for a mainstream support “*small enterprises up to five years following their registration, which have not yet distributed profits and have not been formed through a merger. For eligible undertakings that are not subject to registration the five years eligibility period may be considered to start from the moment when the enterprise either starts its economic activity or is liable to tax for its economic activity.* This special regime has to be taken as segmentation criterion within the Design Option Paper due to the possibilities it offers, from a programme design perspective.
- **Company financial status:** When complying with the State Aid regulation, most national and regional evaluation processes always assess the beneficiary financial situation to

The SoE dossier includes the framed text within the SoE front and the company dimension table in the SoE rear.

⁸ Council Regulation (EU) 2015/1589 of 13 July 2015 laying down detailed rules for the application of Article 108 of the Treaty on the Functioning of the European Union

⁹ Commission Regulation (EU) No 651/2014 of 17 June 2014

undertake the actions, not only to guarantee that they are not an "undertaking in difficulty"¹⁰ but also, depending on the nature of the support offered (grant/loan/equity/service) to ensure its viability, or even to define if the support can be given or not. In this respect, SME dimensions and official accounts are the universal documents for that; however the risk classification based on them are fully dependent on the support to be given. Since there is not a universal risk classification, and the SoE itself does not consider it, the project suggests using the H2020 Financial Viability Check classification (Insufficient-Weak, Acceptable or Good) for a preliminary definition of the company financial status.

- **Company relationship with the agency:** As the H2020 SME instrument call is open, it may happen than in some cases the SoE holders generate a new client segment for the agency (as happen in agencies/regions mainly supporting technology development projects) but in some others (agencies/regions with clear growth focus support schemes where the SME instrument ins the natural next step after national funding) it can be the case that most of the SoE ph2 holders have already exhausted their potential financial support at national level. **Fortunately, this is an easy-to-check variable within each agency** that can be incorporated as an eligibility criterion at any time in the process on a case by case logic.

1.2.2 Variables that define the demand.

H2020 SME instrument targets internationally ambitious SME from any sector: “Heterogeneity is its common parameter”

As the SME instrument offer will be always unbeatable from a number of perspectives (funding rate, advance payment, grant absolute sum), **when defining SoE label based feasible interventions, they should focus on addressing one or more of the ultimate needs the company** had when requested the SME instrument and not only on funding the overall project budget.

As the SME instrument is an open call without any formal procedure or official pre-filtering of the proposals or company status more than the SME self-assessment, **all type of SMEs are eligible to participate in the SME instrument** and therefore their root causes may be very variable.

Although having a SoE would mean that they share a well-described relevant market opportunity, a sound business model and a coherent implementation plan, our experience as NCPs from the programme suggests that there are three basic types of SME instrument SoE projects:

- **Clinical Trial Intensive SME instrument:** Typically under the health domain. They have already shown promising results of their product/technology but they still need large clinical validations/trials to comply with market regulation. They typically request the SME instrument as a way to cover partially the high cost needed for such trials, with a high degree of subcontracting costs.

¹⁰ See definition in GBER Article 2(18)

- **Person Month Intensive SME instruments:** These SME instrument proposals tend to have already first clients or customers acquired and now the business needs to scale-up strongly, launching wide and ambitious customer pilot programmes. For such expansion, these proposals mainly require personnel hours and a limited investment in industrial assets. (less than 30% of the budget go to assets).
- **Asset & Equipment Intensive SME instruments:** These SME instrument proposals are typically within the industrial topics. They usually need to construct and operate an expensive pilot plant, demonstrator or pilot line to convince the market on the industrial viability of their promising product/technology. For these proposals, the share of the budget dedicated to asset investment is significantly more than 30% of the budget of the action.

1.3 Key client type defined: Age and SME instrument focus as main criteria.

With these variables, the key matrix to map our client base is defined in the figure, with entries in horizontal, defining the demand part based on company needs, and entries in vertical defining the financial risks depending on the company age. Considering if the company is an old/new client is an overarching variable, to be used on a case-by-case basis, only if needed.

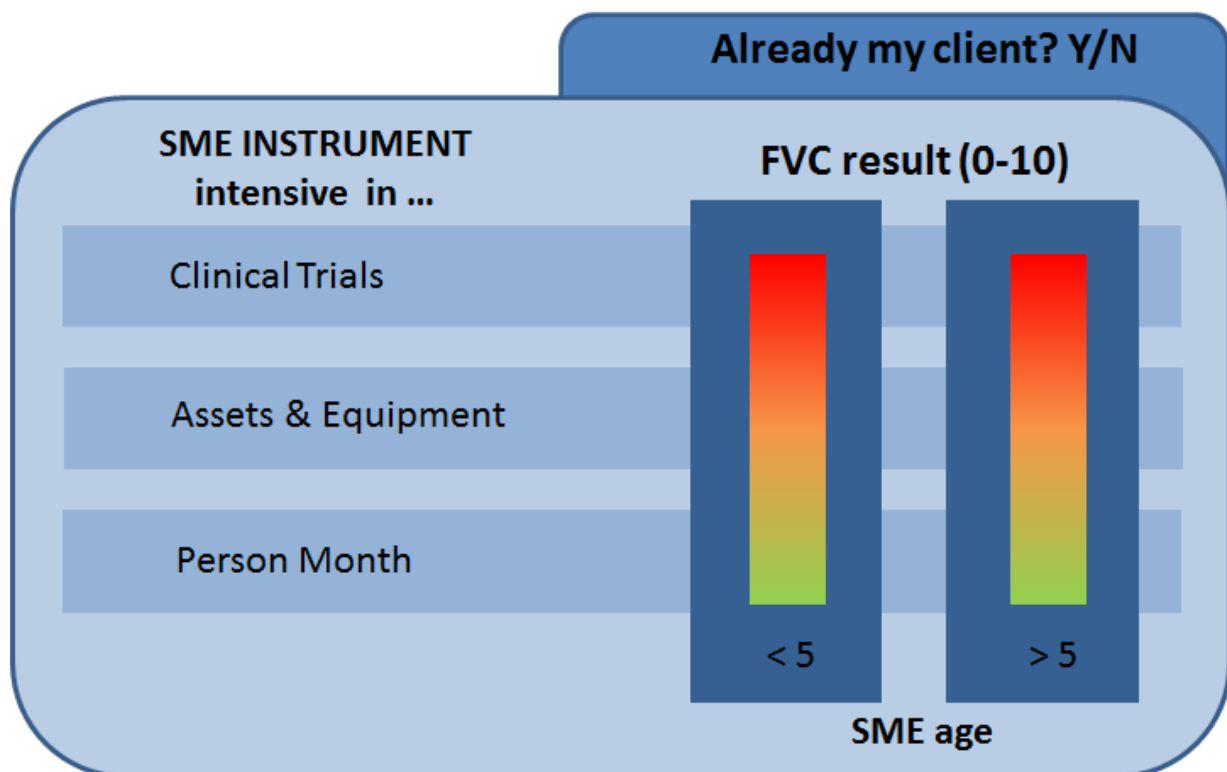


Figure 3: Key variables of the SoE population.

From a programme definition perspective there are two of the four variables in the matrix that define the possible features of the scheme (age and SME instrument type) and other two which influence the response on a case by case level (SME financial situation and being or not a previous client). The combination of the former defines the different user needs packages that can be

foreseen ex-ante that make sense to study further, while the combination of the latter can be used to filter and prioritize the available SoE ph2 community in each country or region.

2 Step 2: What do they need to grow?

Understanding the root needs of the different clients segments is the key to propose feasible and relevant SoE based phase 2 interventions. During the project, 15 real cases have been looked in-depth to extract the common challenges and opportunities that apply to each type of client according to the previous matrix. The following headings present the key growth drivers per client segment types and feasible ways to tackle each of them.

2.1 Drivers of SME growth per client type.

2.1.1 Young AE intensive SME instruments need to convince first paying customers.

Typically, the main challenge of these proposals is to **industrially test their solutions**. Young companies needing such a large investment for pilot testing their technology or product tend to be financially weak and short in human resources, although **they typically already have a sound IPR strategy to protect its core value**. They will grow only when/if the technology reaches a convincing industrial dimension to find a first set of convinced paying clients after an “affordable” pilot investment to generate a revolving business (typically the main logic of their SME instrument projects). In that sense, the activities to be developed within the project could be characterized within the experimental development domain.

Example 1: Spanish SME, (9 FTE, 0.18M€ turnover), aiming to develop further their proprietary technology for inspection, already with some LE as first clients.

The SME instrument is focused on fine-tuning the product to decrease 1/3 its manufacturing cost and pilot the solution on 3 markets.

In many of these cases, **the business model tends to be still on testing mode** and the budget requested, due to the 70% grant of the SME instrument, is usually oversized.

In very oligopoly markets (energy, transport ...), without key contact in the big industry to ensure entry points, **the credibility of the business case could be doubtful**.

2.1.2 Elder AE intensive SME instruments are a diversification vehicle for the SME.

Example 2: Finnish SME (4 FTE, 1.2M€ turnover), aiming to expand their solution for large-scale applications to the medium market.

The SME instrument is focused in carrying an extensive pilot programme in industrial environment and the planning the large-scale manufacturing of the new product of the “family”

These SME instruments are the result of the diversification strategy of the company, aiming to cover new markets modifying or adapting some of their solutions or know-how to specific markets. **They already have the market know-how, and, in many cases they are already well-positioned companies in their sectors.**

In general, these companies are financially stronger and the growth to be generated within the project is incremental from their current business. In that sense, the SME instrument offers them the best funding option for such large scale investment.

In this type of projects, **the large investment as such is clearly needed for the SME to grow and typically, has been budgeted reasonably**. In many cases, the project **could be bankable** (obviously under worse financial conditions), although, still, most of the activities to be developed can be characterized as experimental development without doubts.

2.1.3 Young PM intensive SME instruments want to scale up fast a working solution.

These SME instrument are focused on a **fast upscaling of a working solution**, not only in terms of adding further features but also in terms of working in more demanding international environments. In this sense, the **investment readiness** of the solution is critical as it could **be top up easily from private funds** due to the nature of the activities to be covered and the time frame window of the market opportunity.

Despite this upscaling focus, **the project is still working strongly on the business model validation**. It is not so clear that most of the project activities are within the experimental development domain, as **interactions with final clients under a commercial approach is key in these projects**.

In principle, although the companies are still very small, when they target very fragmented markets their route to market is feasible. This is not the case, however for those targeting public markets, which may benefit from a public procurement funnel scheme or those targeting very oligopolistic markets that may benefit from a strong partnership to ease their market entry.

2.1.4 Elder PM intensive SME instruments aim to de-risk an ambitious growth strategy.

Example 4: Irish SME (14 FTE, 1 M€ turnover) with an ICT platform used so far as a service to generate video app.

With the SME instrument they aim to convert it into a product under a SaaS logic, running an international programme of pilots.

Example 3: Spanish SME (3 FTE, pre-revenue company) with a pre-commercial solution for online identification and monitoring in continuous with interested large clients in a B2B model.

The SME instrument aims to continue product update, set international ambitious demonstrators and prepare the 24/7 aftersales service.

These SME instruments tend to **cover incremental innovations very well aligned with the company business strategy**, either to consolidate it (in the sense of expanding a business in market or in scope) or to adjust it (in the sense of diversification a business). In this sense, **the main barriers for growth are not only external** (market acceptance, new distribution channels...) **but also internal**, as growth will require strong changes in the

organisational structure of the SME.

In most cases, the company financials are good enough to consider these activities bankable, however, **the SME instrument 70% grant offers them the possibility do it with a reduced risk and under a more ambitious approach.** In that sense, the project budgets are typically oversized as the project aims to covers several pilots at the same time.

2.1.5 CT intensive SME instruments aim to take a step further the regulatory process.

Due to the specific regulatory environment in the health domain, **these SME instruments aim to continue/finalise a product development in this sector to start performing large clinical validations.** In most of the cases, the SME instrument is **just a fraction of the investment needed to reach the market**, especially for those project linked to medical treatments.

Considering the distance to market, **the lower the company size the most relevant becomes how the team conceive company growth** because this market is typically “designed” for large pharma/ specialised investors to invest in promising results and the openness of the management team of such approach is of paramount importance. Under this market structure, the key element in many of these projects to be successful is to have the right contact/partner either from a regulatory perspective point of view (a partner co-investing in the final regulatory phases) but also from a market access point of view (as health market decision makers are not easy to reach).

Example 5: Irish SME (9 FTE, 0.5 M€ turnover) with a developed in-vivo sensor to monitor births.

With the SME instrument they aim to perform its clinical trials as medical device, obtain CE mark and define a pilot line for production.

Taken into account the nature of these projects, **market potential (even taken for granted that regulation is accomplished) has still to be strongly assessed and validated**, even to consider if the company strategy needs, in this stage, inexorably go through regulation or it could start direct sales in a similar market (especially relevant for younger firms sustainability).

2.2 *Drivers of programme support under State Aid Rules.*

From a wide perspective, the following “slots” are available for regions or national agencies to create a SoE phase 2 based programme intervention:

Category	Eligible costs	Intensity
Art 13- 14 GBER): (Regional aid)	Investment costs and wage cost from job creation, etc...	Up to 75%
Art 17 GBER: (SME aid)	Tangible and intangible assets relating to the setting-up of a new establishment, the extension of an existing establishment, diversification.	Up to 10-20%.

Art 18 GBER: (consultancy)	Aid for consultancy in favour of SME	Up to 50%		
Art 21 GBER (Risk Finance Aid for SME)	Aid for risk financial instruments in favour of SMEs	Depends on the instrument		
Art 22 GBER: (Aid for start-ups)	All costs for SMEs up to five years following their registration, which have not yet distributed profits and have not been formed through a merger.	Up to 100%		
Art 24 GBER (Aid for scouting costs)	The eligible costs shall be the costs for initial screening and formal due diligence undertaken by managers of financial intermediaries or investors to identify eligible SME	Up to 50%		
Art 25 GBER: (Aid for R&D)	Personnel costs, instruments and equipment, buildings, contract research, etc...according to the next table			
	R&D category	Small firms	Medium firms	Large firms
	Fundamental research	100%	100%	100%
	Industrial research ¹¹	70-80%	60-75%	50-65%
	Experimental development ¹²	45-60%	35-50%	25-40%
Feasibility studies	70%	60%	50%	
Art 28 GBER: (SME innovation aid)	Innovation advisory and support services, seconded staff, IPR costs.	Up to 50%		
De minimis regime	All eligible cost up to 200,000€ in three years	Up to 100%		

Table 3: State Aid Rules Framework options categories for supporting ph2 SoE holders.

These slots offer agencies the possibility not only to design support funding programmes for the SoE ph2 holders but also to consider programmes providing services to tackle SME specific needs: For the sake of coherence in the Design Option Paper, the following categories will be covered:

- **Direct funding programmes.** Measures to propose alternative funding mechanisms from public funds to the SoE phase 2 holders.

¹¹ The higher aid intensity possible, only if either effective collaboration between undertakings or between an undertaking and a research organisation, or wide dissemination of results takes place.

¹² The higher aid intensity possible, only if either effective collaboration between undertakings or between an undertaking and a research organisation, or wide dissemination of results takes place.

- **Indirect funding programmes.** Measures to set alternative paths towards publicly supported private intermediaries.
- **Direct services programmes.** Measures to deliver services through enhanced support structures that will help the SME directly to improve their business case from a growth perspective.
- **Indirect service programmes.** Measures to facilitate SME the access to key stakeholders that will help them to improve their business case from a growth perspective.

Based on these four categories and the previous user needs, the preliminary set of feasible value propositions to consider is shown in in the following paragraphs, based on the peer learning exercise conducted in the project.

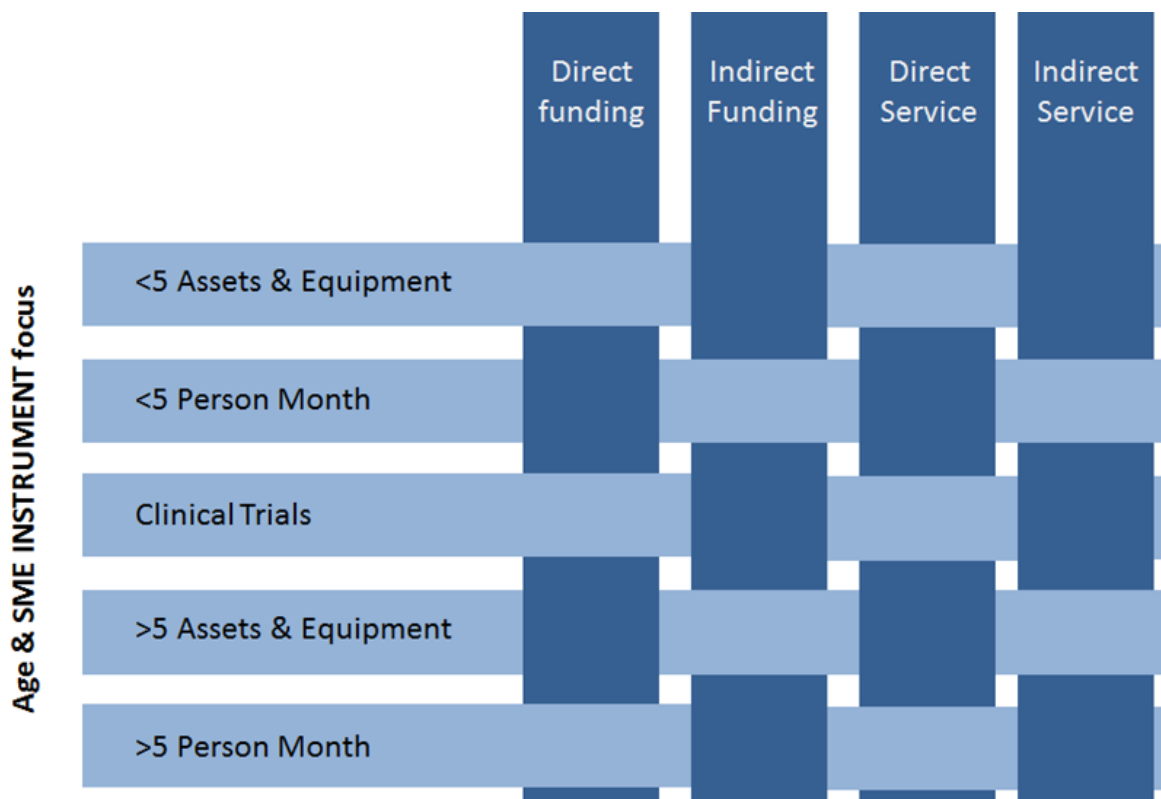


Figure 4: Feasible support mechanism using the SoE concept.

2.2.1 Ideas for valorisation of the SoE for asset & equipment intensive SME instruments.

- **For younger companies:**
 - Direct Funding: A public support programme at national level between the SME SoE and a large company to ensure commercial viability.
 - Direct Funding: A public support programme based on Art 22 GBER
 - Direct Service: A service package to define a more credible business case.
 - Indirect Service: Splitting the project into smaller ones may help to look for an industrial investment.

- **For established companies:**
 - Direct Funding: a national support scheme could be set under experimental development, using the SoE as enabler of a set of unique features.
 - Indirect Funding: Fast Track to EIB could be set, or even, if budgets are adequate, this link can also be set with financial intermediaries.
- **For all companies of this segment:**
 - Indirect Service: A public supervised framework to match industrial investment with company expectations that could include roadshow of verticals, demo day between big company and SMEs and a “boutique approach” brokering investment.
 - Indirect Service: A public register of technological sector of interest to have a controlled access to the SoE portfolio of companies.

2.2.2 Ideas for valorisation of the SoE for PM intensive SME instruments.

- **For young companies:**
 - Direct funding: a milestone based approach is feasible, setting a programme that will unlock grants into a step to step format.
 - Direct Funding: A public support programme based on Art 22 GBER.
 - Indirect funding: Fast track to the InnovFIN VC intermediaries could be relevant if business readiness is assessed.
 - Direct service: a personalised tailor service package offer could improve the business case to be more attractive and coherent for investment (pre-phase 2 are a good opportunity for investors) or for resubmission to the instrument.
- **For established companies:**
 - Direct and indirect funding. The financial instruments available at national level or the support from Juncker Plan are feasible alternatives to fund their development, probably under a revised budget version.
- **For companies having gone directly to phase 2** too early, a lump sum phase 1 type of support could be relevant as a direct funding option.
- **For companies with a B2G business model**, promote H2020 projects where government networks could uptake SoE SME instrument solutions as a direct funding option.
- **For all the companies in this segment**, a public register of technological sector of interest to have a controlled access to the SoE portfolio of companies as an indirect service.

2.2.3 Ideas for valorisations of the SoE for clinical trial intensive SME instruments.

- Direct funding: A national public funding support for R&D under GBER Art 25.

- Direct service: A service package, based on an expert coaching programme to ensure the validation of the product as well as the validation of the commercial viability.
- Indirect service:
 - A networking approach with public entities working on regulatory issues.
 - A face to face approach-demo day with medical professionals linked to big medical congresses.
 - A sectorial private investor platform with large stakeholders or pharma.

3 Step 3: What can I offer them?

3.1 Feasible value propositions.

Taken these ideas as guiding principles, each of them has been transformed into a programme-like format with four key variables analysed:

- The programme definition and objective.
- The type of measure proposed, meaning if the measure substitute the funding from H2020 from other public or private source (alternative route) or if the measure is a complement to come back to H2020 with higher chances of success (consolidation route).
- The GBER slot where this measure can be funded.
- The best use of the SoE within this measure. The SoE can be considered “as part of the evaluation process” using the SoE dossier or just as an eligibility criteria for accessing the programme.

Ref.	Programme definition	Type	GBER	SoE as
DF-01	<p><u>Industrial research grant:</u></p> <p>Considering the nature of the SMEI in the health domain, the activities can be considered as industrial research.</p> <p>The bonus for wide dissemination is doubtful in these projects as their focus is not on dissemination but on exploitation.</p>	Alternative route	Art. 25	SoE dossier
DF-02	<p><u>Experimental development grant:</u></p> <p>Considering the nature of the SMEI, the activities can be considered either as industrial research or experimental development (but for PM intensive SMEI that are too close to the market during the project).</p> <p>The bonus for wide dissemination is doubtful in these projects as their focus is not on dissemination but on exploitation.</p>	Alternative route	Art. 25	SoE dossier
DF-03	<p><u>Experimental development loan:</u></p> <p>Considering the nature of the SMEI, the activities can be considered either as industrial research or experimental development and therefore aid intensity can reach relevant intensities in terms of Gross Grant Equivalent. Again, in PM intensive SMEI, most of their</p>	Alternative route	Art. 25	SoE dossier

	activities are too close to the market to be supported. The bonus for wide dissemination is doubtful in these projects as their focus is not on dissemination but on exploitation.			
DF-04	<u>Experimental development support with pharma:</u> Considering the nature of the CT intensive SMEI, the activities can be considered as industrial research and since effective collaboration do take part between the SME and the pharma, a 15% bonus can be considered.	Alternative route	Art. 25	SoE dossier
DF-05	<u>Start-up grant support:</u> Limited to companies younger than 5 years, the H2020 SMEI can be replicated at national level, just considering the maximum grant per SME (from 0.8 M€ up to 1.6M€ depending on the region)	Alternative route	Art 22	SoE eligibility
DF-06	<u>Lump sum grant for ph2:</u> A grant devoted to support the company in giving their next critical step based on their key barriers. This support may be useful for the company to improve their business case in a dynamic mode and could be especially relevant for companies without a critical investment intensive step.	Consolidation route	Minimis	SoE dossier+ scale down
DF-07	<u>Grant for B2G proposals under H2020:</u> Considering the nature of the SMEI focused on validations with public clients, H2020 can offer these SME slots for collaboration with public agents considering the low uptake of innovative public procurement projects across the H2020 calls.	Alternative route	H2020	SoE eligibility
DF-08	<u>Financial support for proposal improvement:</u> Financial support to the company to resubmit a better proposal to the H2020 SMEI.	Consolidation route	Minimis	SoE eligibility

Table 4: Summary of the proposed direct funding valorisation routes.

Ref.	Programme definition	Type	GBER	SoE as
IF-01	<p><u>Fast track to EIB funding windows:</u></p> <p>Financial support from EIB (InnovFIN growth finance or EFSI) to those SME with a financial healthy SoE dossier (typically, more established companies).</p>	Alternative route	InnovFIN	SoE dossier
IF-02	<p><u>Fast track to InnovFIN intermediated debt:</u></p> <p>Loan support through InnovFIN debt intermediaries at regional or national level for those SME with a financial healthy SoE dossier (typically more established companies).</p>	Alternative-consolidation route	InnovFIN	SoE dossier
IF-03	<p><u>Fast track to InnovFIN equity:</u></p> <p>Equity support through InnovFIN equity intermediaries at regional or national level for these SME investment “friendly”, including scouting activities</p>	Alternative-consolidation route	Art. 24	SoE dossier

Table 5: Summary of the proposed indirect funding valorisation routes.

Ref.	Programme definition	Type	GBER	SoE as
DS-01	<p><u>Advisory package to improve the business case:</u></p> <p>Coaching-mentoring-consultancy support under a one to one basis to identify key strong elements in the business case to develop further and obtain a priority list to tackle from a business growth perspective that may include route-to-market issues, IPR issues or business modelling issues</p>	Consolidation route	Art.18	SoE eligibility
DS-02	<p><u>Brokering package to industrial investment:</u></p> <p>Specialized broker support under a one to one basis to increase the SME investment readiness and to find an industrial investor to co-invest in the project. Depending on the sector, this industrial investor may be fundamental for the SME to have any chance to access the market.</p>	Alternative-consolidation route	Art.28	SoE dossier

DS-03	<p><u>Brokering package for clinical trials:</u></p> <p>Specialized broker support under a one to one basis to define regulatory steps in detail and find an interested pharma/hospital to run the clinical trials. This service can be coupled to the financial measure dedicated to fund these consortia (DF-03).</p>	Alternative-consolidation route	Art.28	SoE dossier
DS-04	<p><u>SME Pit-Stop programme:</u></p> <p>Coaching, mentoring, consultancy, brokering support to the company under a portfolio basis that will include individual sessions, group sessions and vertical demo-days if/where relevant for industrial investors and/or private investors.</p>	Consolidation route	Service contract	SoE eligibility
DS-05	<p><u>NCP premium services:</u></p> <p>Dedicated tools from the NCPs devoted to improve the SME instrument proposal for the resubmission process.</p>	Consolidation route		SoE eligibility

Table 6: Summary of the proposed direct services valorisation routes.

Ref.	Programme definition	Type	GBER	SoE as
IS-01	<p><u>Public supervised marketplace for SoE:</u></p> <p>Official marketplace where all SoE are registered and thematically categorized open for interested parties but supervised publicly</p>	Alternative-consolidation route	Service contract	SoE eligibility
IS-02	<p><u>EU Investor community and SoE holders:</u></p> <p>Investment platform EU wide where investors can screen SoE holders through their SoE dossier.</p>	Alternative-consolidation route	Service contract	SoE dossier
IS-03	<p><u>Brokerage events:</u></p> <p>SoE dedicated events with investors, closely linked to the “official” ones or thematic EU fairs.</p>	Alternative-consolidation route	-	SoE eligibility

Table 7: Summary of the proposed indirect services valorisation routes.

3.2 Does our offer meet client expectations?

In order to ensure acceptance of the programme and its viability at agency level, a prioritization exercise has been conducted with our clients and the agencies within the consortium to rate the different measures with two criteria:

- SME preliminary interest in the measure (High-Medium-Low)
- Cost of the measure at agency level (High-Medium-Low).

With these criteria, the cost-benefit of launching a programme with the different focuses can be assessed depending on the SoE holders population and budget availability. In some cases, the measure only makes sense at EU level, and as such it has been marked in blue.

Ref.	Programme definition	CT	PM<5	PM>5	AE<5	AE>5	Cost
DF-01	Industrial research grant	H	-	-	-	-	H
DF-02	Experimental development grant:	M	M	H	M	H	H
DF-03	Experimental development loan:	L	L	H	L	H	M
DF-04	Experimental development support with pharma:	M	-	-	-	-	H
DF-05	Start-up grant support:	H	H	-	H	-	H
DF-06	Lump sum grant for ph2:	M	H	M	M	M	M
DF-07	Grant for B2G proposals under H2020:	H	H	H	H	H	M
DF-08	Financial support for proposal improvement:	H	H	M	H	M	L
DS-01	Advisory package to improve the business case:	H	M	L	M	M	L
DS-02	Brokering package to industrial investment	M	M	M	M	H	M
DS-03	Brokering package for clinical trials:	L	-	-	-	-	M
DS-04	SME Pit-Stop programme:	H	H	M	H	M	M
DS-05	NCP premium services:	H	H	M	H	M	L
IF-01	Fast track to EIB funding windows:	L	L	L	L	M	L
IF-02	Fast track to InnovFIN intermediated debt:	L	L	M	L	M	L

IF-03	Fast track to InnovFIN equity	M	M	L	M	L	L
IS-01	Public supervised marketplace for SoE	L	L	L	M	M	M
IS-02	EU Investor community and SoE holders:	M	M	L	M	L	M
IS-03	Brokerage events:	L	M	L	M	M	L

Table 8: Summary of measures and feedback collected from the market.

The most relevant measures in each category are further developed in this Design Option Paper. These measures are the following ones:

Ref.	Programme definition	Rationale of the measure selection
DF-07	Grant for B2G proposals under H2020:	The SoE for phase 2 in H2020 is an SME-friendly measure. Considering the overall target of SME participation in H2020 it can make sense to explore what else can H2020 do for the SoE, especially in areas where impact in growth can be high and public authorities have the capacity to leverage it.
DF-05	Start-up grant support:	Very welcomed measure in general but it has always been possible as Art 22 allows a direct definition of a programme to support start-ups in its early phase. It makes little sense to expand further this line as the only element to consider is how to weight the SoE within the evaluation criteria of the call, if so.
DF-02 DF-03	Experimental development grants-loan:	Welcomed measure in general, although grant intensity can be problematic for the more expensive SME instruments. Art 25 allows the funding of projects under experimental development as described in the <i>“Explanatory note of the Commission services on the application of State Aid Rules to national and regional funding schemes that offer alternative support to SME Instrument project proposals with a Horizon 2020 ‘Seal of Excellence’</i> . Using loans instead of grants is a relevant option for a number of agencies in Europe. Although it may limit the acceptance of younger companies, for more established ones, it can offer a wider coverage of the budget.
DF-06	Lump sum grant for ph2:	Generally welcomed measure, especially in PM intensive SMEI. In general, SME instrument ambition creates over budgeted projects that, from a business perspective, could be down-scaled to tackle step by step the critical market barriers. Analyzing these projects from a business logic perspective and forcing them to prioritize will help them in focusing better their resources. This analysis could be done in-house or through an external programme (new or existing)
DS-01	Advisory package to improve the business case:	

DS-04	SME Pit-Stop programme:	Holistic support of the company from a service contract perspective. Welcomed by most type of clients, doubts concentrated in the implementation level. From the supply side, it can simplify the operations and the complexity of a service based programme and it can be useful from a business growth perspective but also from a resubmission perspective.
DS-02	Brokering package to industrial investment	Finding investor, industrial partner or clients is high ranked by most of the client types. Reaching the correct ones is not just matching them or offering them a meeting place. Combining a proper broker work with the needed face to face is a relevant service worth to be explored.
IS-03	Brokerage events:	
IF-01	Fast track to EIB funding windows:	This is neither the first option from most of the clients nor the most suitable for current EIB investment policy. However, considering EFSI guidelines, an easy fast track process can be set to test the increasing innovation focus of the EFSI investments for selected cases.

Table 9: Top ranked valorisation routes per category.

3.3 Top rated valorisation routes for H2020 SME instrument Ph2 Seal of Excellence.

3.3.1 EU measures to support Phase 2 SoE holders.

In line with the H2020 SME targets and considering the objectives of the investment package for Europe, there are two valorisation routes to consider at EU level for the Seal of Excellence:

3.3.1.1 *DF-07 Grants for B2G proposals under H2020:*

Specific Challenge: SME proposing a Business to Government business model is a cross-thematic SME instrument type typically needing a first set of public authorities to test the SME solution under real environment. This type of proposals ranges a wide set of products or services and in general, they target to improve somehow public services either in its interaction with the citizen, either in the “back office” within the public authorities competences.

All of these projects share common market barriers: a high degree of market fragmentation, a high level of local/regional/national regulations and a high reluctance to innovate systematically that could be tackled with a proper set of “testers” across EU.

Public procurement for innovation has been identified as one of the key path to take innovation to the market. This key role is based on the capacity of the public sector to use its purchasing power to act as early adopter of innovative solutions which are not yet available on large scale commercial basis.

Scope: H2020 has been extensively supporting public procurement for innovation (around 130 M€ in WP 2016-2017) across most of its thematic areas (European Research Infrastructures, ICT, Health, Security, Energy, Transport, Space and Climate Change/Environment) either to prepare and undertake together a PCP or PPI procurement (calls for PCP actions or PPI actions), either to cooperate on identifying opportunities and preparing for future PCPs / PPIs (calls for coordination and support actions). SMEs are typically under a disadvantageous situation in these processes,

either with products or services much better than alternatives, due to its lack of reach to these public buyers or its lack of sound references for their product. A Seal of Excellence in their ph2 SME instrument can be the trigger for both elements.

Expected impact: Matching public procurement demand and SME developed products or services is the objective of this pilot programme, aiming to fund under a collaborative environment, the large scale trials needed at real environments for SMEs with a Seal of Excellence to boost their Business to Government business model. The most suitable instrument for this is the “innovation action” under H2020, having an SME with a SoE as an eligibility criterion for these projects, and a target budget around 1,5M€.

This approach will not only help SME access their markets but also, from a strategic point of view, support the objective of dedicating 20% to SMEs within Societal Challenges and Leadership in Industrial and Emerging Technologies in a very SME friendly environment.

In order to facilitate these projects to emerge, a knowledge platform where SME SoE could showroom their products and services could be of much help. This platform will be organized through vertical communities and could be only accessible for public authorities.

3.3.1.2 IF-01: Fast track to the EIB windows under InnovFIN and EFSI.

Specific Challenge: InnovFIN and EFSI offer debt or equity funding to SME undertaking innovation. For the more established companies, financial instruments, especially debt, can be an alternative to fund their SME instrument project and for the younger ones, equity can either substitute or complement their investment in the SME instrument. Although in principle, the target of these financial instruments is wider than the one from the SME instrument, the financial offer from InnovFIN and EFSI could be suitable for some of the SoE holders and therefore it could benefit from an official bridge at EU level between the SME instrument evaluation and EIB.

Scope: Define an official deal-flow transfer between the SoE holders and the EIB in order to provide them a financial offer for their project. When the SoE holders have an acceptable financial situation (healthy SME dossier), thanks to this defined procedure, the EIB could provide them an alternative funding using their direct funding windows more linked to innovation.

In the case of the windows managed centrally by EIB, this process can be easily integrated within the H2020 submission forms by a simple Y/N question (would you be interesting in funding this project through an EIB loan in case funds are exhausted within the call?). In the case of intermediated instruments, this deal-flow transfer is not so simple. However, just by defining the “SoE” as an eligibility criterion for the “innovative SME” definition for the intermediaries is a smart way to encourage intermediaries to cover this population.

Expected impact: Define alternative funding paths for financially strongest SME SoE cases under a proactive way, attracting EIB investment into innovative SME. Having an “official” fast track allows EIB to concentrate on the financial parts of the proposals, taken for granted the technical viability of the SoE business case, which tends to be more problematic to be assessed.

Considering the number of SoE holders in this situation (typically within the established SME with PM intensive projects) the pipeline would still be manageable for the EIB central entry point to be tested in a pilot format, either with funds from H2020 or those from EFSI.

3.3.2 Direct funding options at national or regional level for phase 2 SoE holders

Taken as reference the proposed routes from table 9, the following programme-like fiches are available for direct funding.

3.3.2.1 *DF-05: Start-up grant support. (Art 22 GBER)*

Rationale:

To offer a direct plan B funding to young SME with a phase 2 SME instrument SoE less competitive than the H2020 SME instrument but with similar grant intensities.

Type of support:

It comprises grants under a periodic non-thematic call to recover SoE ph2 holders younger than five years. As the support is limited according to Art 22, the project budgets may be revised depending on the location of the SME.

Context:

In many countries and regions across Europe there are already funding mechanism based on Art 22. In many of them, these mechanisms have been already used by the SME before going to the SME instrument, so they can not be used again to fund most of the SoE.

In countries where this mechanism is not in place, this programme can be set with the two possible objectives: nurture SME instrument with good companies or somehow rewarding those having gone directly to the SME instrument and obtaining a SoE.

Ways to use the SoE:

Since budgets have to be refined, the easiest way to use the SoE is declaring it as an eligibility criterion. In countries or regions with a limited number of them, it is better to define the SoE as an element that add points to the evaluation demonstrating the tangible value of the SoE.

Target SME SoE holders:

Considering the segmentation conducted, this measure is only available for less than 5 years old companies. Regarding budget, typical budgets per project under this measure will not be enough for the most expensive A&E SMEI projects neither for many of the CT intensive SMEI.

3.3.2.2 *DF-02-03: Experimental development blended support (grants & loans) Art 25 GBER*

Rationale:

To offer a direct plan B funding to SME with a phase 2 SME instrument SoE less competitive than the H2020 SME instrument but with grant intensities according Art 25 GBER using only grants or soft loans (with a gross grant equivalent).

Type of support:

It comprises grants or soft loans under a periodic or open non-thematic call to recover SoE ph2 holders. Considering the nature of such projects, the typical activities to be performed are within TRL6 and 8. These activities can be considered as experimental development and therefore aid intensity can reach as basis to 35-45% depending on the company size.

In the case of grants, the possibilities are already analysed within the Staff working paper from January 2017¹³, taken from granted the SME instruments are considered as experimental development.

In the case of loans, maintaining the grant gross equivalent within these limits, the loan can cover up to 70-75% of the project budget and therefore, it can offer the company wider resources for their projects, at the cost of a more thorough risk analysis of the company financials.

Considering the riskier nature of these loans, a guarantee mechanism to cope partially with the risk of this portfolio would be especially welcomed. In this sense, having a partnership with a guarantee institution is a strong recommendation for any agency aiming to set this scheme.

Context:

From the analysis of cases conducted in this project there are two elements to consider when applying this measure:

- Not all SME instruments can be defined as “experimental development”. Taken into account the representativeness of the cases analysed, most PM intensive projects are expecting to reach the market within the project duration and therefore cannot be seen as “experimental development” as a whole.
- It is not fully clear if the “dissemination bonus” can extensively be applied for these projects, as they tend to focus their communication strategies on exploiting the results and not on a wide dissemination of results.

These two concerns can reduce significantly the “maximum” grant intensity for many projects and especially, for the youngest companies, can make this support hardly interesting.

If the loan approach is considered, although only financially stronger companies can benefit, the financial support of the project budget can be enlarged, having a part of it covered through a grant and part of it covered through a loan.

Ways to use the SoE:

In this scenario, using the SoE dossier concept is the preferred option as part of the evaluation process, as it will directly rank proposals and the financial information can be used as a first filter.

From the agencies experience, this SoE dossier has to be completed with a face to face interaction with the company and a thorough financial analysis of the company, (especially under the loan approach).

As national agencies typically have programmes under this Art 25, having a SoE should offer participants a different alternative not available without the SoE. This can be translated preferably into a call restricted to SoE holders or funding categories only available with a SoE.

Just offering a weight in the evaluation will limit the usefulness of the SoE.

Target SME SoE holders:

¹³ “Explanatory note of the Commission services on the application of State Aid Rules to national and regional funding schemes that offer alternative support to SME Instrument project proposals with a Horizon 2020 'Seal of Excellence'.

From the different SMEI segments, only the more established companies may be interested in this kind of support. Younger companies would not be able to support a loan in the balance and even under a grant format, for expensive projects (CT intensive or A&E intensive) the relative lower grant intensity will also be a problem for them to co-fund it.

Budget revision to re-adapt project ambition and loan coverage is relevant and probably needed in many cases. It could be a way forward for a number of cases where the SME instrument projects cover several pilots and /or trials in the same project. To ensure this process is successful a face to face meeting with the company eases this project re-definition when needed.

3.3.2.3 DF-06: Lump sum grant for ph2 + DS-01: Advisory package to improve the business case

Rationale:

To grant the “next step funding” to SME with a phase 2 SME instrument SoE which are critical from their business growth perspective. This funding is not expected to be a B-funding plan, but a follow-on funding plan, helping the company to build a stronger business case. As it is expected to run through “de minimis regime”, a maximum amount of 200,000€ in 3 years per company applies. For that, on a case by case basis, the available minimis slot has to be calculated, but the expected grant per project can be set in 100,000-150,000€.

Type of support:

It comprises a grant under a periodic non-thematic call aiming to fund the next step of the company. Defining this “next step” is the critical point of this measure. There are different alternatives for that with increasing impact (and cost):

1. The company self-define alone their critical next step.
2. The company together with the agency defines together their critical next step.
3. The company received an advisory package (through Art 18 GBER) and the output is the definition of their critical next step.

Context:

Feedback collected from real cases suggests that in many cases jumping from a phase 1 to a phase 2 is rather complex for many companies, needing something “in between”. This “phase 2 lite” would be useful within this gap not only to cover this subset of companies but also serving others to continue their growth roadmap, either to go stronger to phase 2 or either to already validate its business case and go to market.

Defining the key first next step is not an easy task. Depending on the relevant SoE population within each country/region different alternatives are available to set this key next step.

Although option 1 and 2 are the most natural solutions, option 3 is the most complete one, as coaching and mentoring from SME instrument beneficiaries is generally very well considered by beneficiaries. Extending its benefit to SoE will have a direct impact on the SME growth strategies.

When this service has a clear objective as output and is combined with some funding, the impact of the agency investment could have even a higher leverage effect.

Although setting a national or regional structure ad hoc only for this it is not easy, there are some sources of inspiration for that. First, the “Design Option Paper” developed by the Peer-BIT project¹⁴ is focused on that, and secondly, as EASME coaching and mentoring community is already consolidated in many countries and regions, it can be a source of reliable professionals to be used within this scheme.

Ways to use the SoE:

For this measure, the SoE can be used differently depending on the option selected to define the key next step.

If option 1 is used, the SoE is just an eligibility criterion to enter into the call and the programme has to be properly evaluated. If option 2 is used, typically in cases with a limited number of SoE, the SoE dossier will be the most suitable way to prioritize the way the agency interact with the companies and to define if this phase 2 lite makes sense for the different types of SMEI.

If option 3 is used, the SoE dossier will not only be useful to prioritize support, but also to assign the adequate coach/mentor.

Target SME SoE holders:

This measure was originally designed especially for PM intensive SMEI that need to continue at cruise speed in their development and do not have a go/no go milestone based on an expensive investment. When discussed in the project, it turned out that this measure could also be very relevant for most “less established SME”, that typically defined an over-budgeted project and this measure, together with the advisory package will help them to focus and make their business case stronger.

3.3.3 Service delivery package programmes at national or regional level for phase 2 SoE holders

Considering the idea behind the SoE of a powerful filter for potential high growth companies, the project has also considered ways to valorise the ph2 through services targeting the key company needs from a growth perspective.

The two programmes prioritized have been welcomed by most type of participants; however, its implementation is highly dependent on the agency human resources devoted for that. In fact, both proposals would represent similar benefit from a SME perspective but a different approach from the agency perspective.

3.3.3.1 DS-04: SME Pit-Stop programme

Rationale:

Ensure the maturation of the SoE holders companies either from a business case point of view or from an investment point of view. As Formula 1 need to go periodically into the pit along a grand prix, SME SoE holders can benefit for a number of professionals that could concentrate their support in a “master intensive programme” to come back to their market stronger.

¹⁴ https://ec.europa.eu/easme/sites/easme-site/files/680936_design_option_paper_on_sme-mpower.pdf

Type of support:

A mixture of services involving coaching, mentoring, consultancy, brokering support to the company under a portfolio basis that will include individual sessions, group sessions and vertical demo-days if/where relevant with industrial and/or private investors.

Considering the SME instrument call structure, this support can be conceived as “semester/annual Editions” and to ensure a proper implementation, it may have thematic focus. In term of size, this type of programmes may work best with groups of 10-15 companies at maximum.

The agency will either contract a service provider to manage the whole programme or either centrally manages the different set of services and the interactions with the SME. For the SME, all the support received is in-kind.

In principle, there is no cash offered to the company, unless this measure is combined with some of the previous ones defined under the previous heading.

Context:

Europe is full of incubators and accelerations programme devoted to start-ups that serve as source of SME instruments projects, but typically lack support in the following growth phases where the SME instrument focuses.

While incubators usually offer longer-term help for tech-based companies under a broader range of support, accelerators offer short-term processes focused on growth, typically taking some equity from companies.

Building on these concepts, the Pit-stop programme aims to put at the SME SoE holder service a number of professionals to deal with the common key challenges for the different SME SoE holder population under a concentrated set of sessions.

Taken benefit of the key challenges pre-identified in this Design Option Paper, the set of services to be offered can be tailored to the SME needs, defined typically under a growth perspective but with an obvious collateral benefits if they plan to resubmit the proposal. Exploiting this collateral benefit as a relevant service module is key to ensure SME interest.

Ways to use the SoE:

SoE as an eligibility element will be the first way to use it. However, for a more successful programme, the SoE dossier could be more helpful to define also a similar pattern within the selected companies. In that process, a proper face to face interaction with the company would be key as SME commitment to the programme is very relevant.

Target SME SoE holders:

This measure was proposed originally for less established SoE holders, however, it turned out to be useful across most of the SMEI segments due to its strong collateral effect on improving, under a holistic way, their business case and therefore their proposal for resubmission.

From company feedback and considering programme dimensions, using the same life cycle model used by EASME in their coaching service, will help to define different-focused “pit-stop” programmes.

3.3.3.2 DS-02: Brokering package to industrial investment + IS-03 Brokerage events

Rationale:

Finding investors or industrial partners is ranked as “High” by most of the client types. Reaching the correct ones is not just matching them or offering them a meeting place. Combining a proper broker work (intermediary knowing both sides of the table) with the needed face to face interaction is a relevant service worth to be explored, especially for industrial investors, less familiar with the start-up investment events and ecosystems and with rather different criteria to conduct investments.

Considering the filtering nature of the SoE, SME with the SoE in ph2 are at the top tranche of the thousands of projects presented in every call. Moreover, since they have not win yet the phase 2 but they have been close to, investing in them now will report to the investors a quick company value increase if they resubmit and win the phase 2.

Type of support:

Broker specialized support to the company under a one to one basis to increase their investment readiness and to find an industrial investor to co-invest in the project, through art 28 GBER-Innovation advisory and support services for SME (for the SME) or Art 24 GBER for scouting cost (for the investors).

This kind of support will be typically based on external thematic brokers (to be selected by the agency) that will help the SME in developing further their investment readiness and encourage investors to meet face to face with promising companies.

It could be also foreseen that the analysis is conducted over a wide population of companies (covered by Art 24) and only some of them were offered the broker function with the investors (covered by Art 28).

Context:

Investment platform for VC and business angels are consolidating across Europe, either from a pure B2B private approach, directly linked to acceleration programmes or directly attached to an event. Most of these platforms rely on an automatic matching mechanism between company and investors profiles to end up in setting a meeting either physical or virtual. Some others work under “funding campaigns”, where investors can decide to invest or not in the different companies alone or together with other investors.

This type of platforms usually offers very interesting funding options for companies needing moderate investments, typically not devoted to assets or industrial equipment. Using the SoE as a “label” in these platforms is a feasible way too to put into value the SoE, as it is used to qualify the a pipeline of projects. For this to be an added value, not only the SoE label is needed but also the SoE dossier that allows to frame, from an investment point of view, the competitive evaluation undertaken under the SME instrument. If investors perceive SoE pipeline as a better source of projects than others, then this approach will be successful.

However, when dealing with industrial investors, these approaches are less efficient since they tend to look for SMEs worth to partner with in the longer perspective where part of the investment is devoted to developing an asset or equipment, which ROI is out of the timeframes required in the

typical VC markets. For such cases, a more one to one relationship between the SME and the industrial investor has to be build and it usually needs a strong trust element This measure aims to cover such specific need by using a limited number of brokers to analyse the selected cases and promote individually the most relevant ones to potential industrial investors under a boutique approach, that is, a very customized service per client.

Ways to use the SoE:

The SoE as an eligibility element will be the easiest way to select companies. However, due to specificities of the support, the will of raising private money (and the amount) is key for being selected. Obviously, the company dimensions, reported in the SoE dossier, are also worth to be considered in the evaluation to target different types of industrial partners.

While the analysis part of the measure can be offered to a wide audience of SoE holders, it can make sense to focus the brokering function only into the most promising set.

Target SME SoE holders:

This measure is especially designed for A&E intensive SMEI that need and will to have an industrial investor.

4 Conclusions and recommendations.

This Design option paper has analysed from a holistic approach the possible valorisation routes that can be explored with the SoE holder population, specifically within the H2020 SME instrument phase 2 domain.

In that respect, this paper invites agencies to approach this SoE population under a business logic, understanding their client needs and devoting resources only when it make sense as it add value to the SMEs. To facilitate the process, this Design Option Paper is designed as a guiding document to ensure that each agency can find a suitable measure to add tangibility to the SoE, offering them a set of pre-set programmes and a number of key elements to consider when selecting any of them. Having conducted this exercise the main conclusions and recommendations worth to highlight are the following:

The Seal of excellence needs a better framing of the evaluation in each instrument.

Having a SoE in H2020 means that the proposal has reached all the thresholds of the call; however this can mean differently depending on the H2020 instrument. For the SME instrument phase 2, a SoE will imply that the company has a relevant market opportunity, its business model is sound and its plan of implementation is feasible and coherent. However, these conclusions are not obvious for people who do not know the H2020 SME instrument evaluation rationale just reading the SoE.

In this context and in view of the replication of the SoE across other H2020 instrument a tailor made text should be included in the SoE that define the ranking of the proposal, its score out of 15, the competition of the call and how far it has been from funding to give anyone reading the Seal the whole information on the stringent and competitiveness of the calls.

In the SME instrument case, alternative funding routes are possible within state aid rules but not always interesting from the company perspective.

Having done a thorough segmentation of the SoE population, this Design Option Paper proposes up to 11 ways to offer alternative funding for the SME instrument phase 2. Unfortunately, there is not a unique solution fitting all but different approaches depending on company needs and always under worse conditions and slower procedures than the original H2020 SME instrument phase 2. Clearly, younger companies can be covered by grant or equity systems while more established companies can also become eligible for loans or debt finance. In both situations, the SoE offers a tangible value if it is able to open a way/a feature/ a programme not possible without the Seal.

Service based valorisation routes of the SoE ph2 aim can also be explored as a complementary support to the SoE holders.

The Design Option Paper suggests 8 services aiming to make the business case stronger from a business growth perspective. These services will hardly be a substitute of the H2020 funding, but in many cases can have the collateral effect (and therefore be very attractive for the companies) of making the SME instrument proposal more attractive. The implementation logic of these services makes them be useful for most of the SoE holders and its tangibility is clearly defined, although its final success would be defined in the details of the implementation.