



A- A STRATEGY FOR HIGH TECH SMEs

SMEs are given cooperative opportunities by the European Commission and the EU support is granted to SMEs having few or no research capabilities.

Nevertheless, industries on the leading edge of European competitiveness, high level technologies developers and implementers, are backed by a supply chain of high tech SMEs having the necessary research capabilities and needs. Those high tech SMEs are the heart of most of the European innovations and their influence on employment is unanimously recognized.

One could say that such enterprises are of a size to practice research with large industrialists either in STREPs or IPs (today) or JTIs (tomorrow), in agreement with large industrialists' strategy. This is generally true when SMEs find within the large industrialist led research the strategies corresponding to their own short term strategic targets. The cases exist but they are not numerous enough to comply with the European Parliament expectations (15% FP, RTD funds to SMEs, as voted in FP6).

In most of the cases, to fill their technological acquisition gap, high tech SMEs have to set-up their own research projects in line with their own, short to mid-term and product development oriented strategy. They select the comfortable and manageable dimensions of: funds, duration and partnership. They invite large industrialists to participate as technology end users.

As a consequence of their industrial situation, SMEs address narrow slots of technology giving to their proposals modest economical impacts when compared with the ones of large industrialists. The impact is modest but achieved and verifiable in the short term; the impact of SMEs research on European Union employment would become even more significant provided some hurdles would be removed.

The following facts are evidence why SMEs research needs and project proposal evaluations deserve specific attention from the European Commission.



Hurdles for high tech SMEs (and possible removals)

Hurdles for high tech SMEs are shown below in four main categories and possible suggestions for solving them are indicated for each of them:

- general principles in the decision making process of the Union
 - give more support and the possibility of extension to effective Specific Support Actions
 - offer SMEs the opportunity to express their point of view in EU advisory or consultative groups (ACARE as an example)

- call for proposals, evaluation system and process
 - give SMEs the opportunity to benefit from open calls for collaborative and cooperative project proposals (extend the CRAFT submission mechanisms)
 - organize a free space for SMEs within JTI's.
 - set up specific panels for SMEs project proposals evaluations

- financial constraints
 - revise the rule of 7% for management and consider a minimum (and why not a maximum) of fund support for properly managing a project
 - abolish the iniquitous rule of overheads for the SMEs FCF cost category (20% only when compared with 80% earlier)

- contractual obstacles
 - compress the time to negotiate contracts and make it as short as possible
 - admit the 5% GTO rule as a minimum for not requiring a bank guarantee
 - if a bank guarantee is requested by the EC, please justify it according to well known or agreed metrics and request it only for sums above the 5% GTO.



B- Incentives to clear the path for SMEs

B-1 Incentives dealing with general principles in the decision making process of the Union

B-1.1 Support Actions

The European Union has provided good support for SMEs in a bottom up approach thanks to accompanying measures. Results are mitigated, some have poorly impacted and other have achieved fair results to the benefit of SMEs and the EU. Effective actions deserve to be maintained if not generalized to all specific programmes, encouragements are expected from the Commission.

Nevertheless, even if such measures improve the involvement of SMEs in FP RTD mechanisms, they do not impact on the EU FP RTD strategy. Another type of action needs to be undertaken in order to make the voice of high tech SMEs audible in the EU FP RTD decision making process.

B-1.2 Advisory Committees

The EU has a consensual approach for all of its decisions, which are the fruits of discussions within advisory (or consultative) groups. As far as Research is at stake, all industrialists, research centres and members states are invited to express their point of view (see ACARE as an example). The SME voice, high tech or not, is very scarcely heard in such committees and as a consequence, support offered to low cost and small projects from SMEs is never comparable to the one granted to very costly large projects from large companies (IPs, in FP6 and JTI in FP7). The target to obtain the same level of support is of course unrealistic and not suitable to the situation. Nevertheless, a change in the EU top down decision making process would be a better balance the high tech SMEs situation.



B-2 Incentives dealing with call for proposals, evaluation system and process

B-2.1 Submission process

SMEs having few or no research capabilities have been granted by the Union of dedicated budget and dedicated measures (CRAFT). To be more efficient, an open call system is organized all along the FP duration.

High tech SMEs, which are on the leading edge of competitiveness, deserve an equivalent attention from the authorities but do not benefit yet from either a dedicated budget, special measures or open calls. Such an adjustment dedicated to high tech SMEs needs: specific budget and open call for proposals would probably significantly change the level of high tech SMEs involvement in EU FP RTD STREPs mechanisms.

B-2.2 Free space for SMEs in JTIs

IPs submission cannot be easily envisaged on the principle of an open call and would remain scheduled on the principle of fixed calls, even for SMEs application. Certain flexibility would be granted to high tech SMEs if a budget reservation would remain free for SMEs JTIs ideas.

B-2.3 Evaluation Process

STREPs proposals presented by high tech SMEs will never have the same technical, economical, industrial, financial and political dimension that the ones issued by large industrialists. To evaluate them in a single evaluation panel defeats the purposes of SMEs EU FP RTD involvement. Special SMEs evaluation panels are measures that should be associated to dedicated budget and generalized to every EU CFP.



B-3 Incentives dealing with financial constraints

B-3.1 Support for Management

In FP6, the Commission has allocated 7% of its EU funded budget for administrative tasks but, in fact, administrative and management tasks are not proportional to the project budget. See as various examples:

- the costs for audits requested by the Commission: they are independent of the EU funded budget (roughly constant);
- the management travels and accommodations expenses: they are more linked to the project duration even if partly linked to EU funded budget;
- setting up cost statements, writing progress and management reports: they are close to be constant or depending on the number of partners and poorly related to EU funded budget.

Many other examples could be found but are not necessary to emphasize our concerns

The 7% is the result of an average approach taking into account the average management cost (200K€) of an average FP project (5M€). The considered average project is far from high tech SME project budgets (2M€). The consequence is such that projects larger than 5 M€ are well funded for management and that projects lower than 5 M€ are under funded.

It might be possible that a maximum for management could not be applicable whereas a minimum of 200 K€ would be more appropriated for SMEs high tech projects.

B-3.2 Accountancy constraints Alleviation

Within FP6, SMEs are the only one companies authorized to apply Full Flat Costs (FCF). The principle of Full Flat Costs category has been implemented during FP5, it was at that time open to every contractor. In such a category, overhead costs were estimated in FP5 as a lump of 80% of personal, travel and subsistence costs. The principle implemented in FP6 maintains FCF for SMEs only but limits the amount of overheads down to 20%. The value is now not realistic and most of the SMEs are obliged to choose Full Costs which consequence is an increase of SME internal management cost and an increase in SMEs audits costs. Coming back to the FP5 previous situation would be welcomed by high tech SMEs.



B-4 Incentives dealing with contracts

B-4.1 Time to funds

In FP5, duration from a proposal preparation starting time to contract was in average of 12 months. FP6 implemented a new system allowing starting a project before signing the contract: it has neither decreased nor increased the 12 months delay. Time to contract has even been increased as well as time to receipt of funding, which is obviously more sensitive for SMEs rather than for large manufacturers. Changes would improve the SMEs situation.

B-4.2 Financial protection

From SCRATCH, we have systematically recommended to every SME entering in EU funded collaboration not to invest yearly more than 5% of its global turnover. We have done it for two reasons:

- firstly, not to financially endanger the SME situation in case of failure of the research undertaken;
- secondly not to create a risk to the Commission or to the Consortium with an SME over-investing and risking bankruptcy.

The Commission has recently decided to protect the citizens' interests more by asking for a bank guarantee, for the total grant going to the SMEs they consider unreliable, but without giving any explanation or justification. This new hurdle is definitely not an encouragement for SMEs participation to EU FP RTD. Reconsideration of the approach would be more than welcome.

Moreover, having protected the citizen asking for bank guarantee, the Commission requires the setting up of a blocked bank account, where EU funds will be stocked before being consecutively transferred to the partners. The coordinator is once again facing with a detrimental situation mainly because he no longer has any mean of pressure on project technical progress and partners' involvement. This "overall protection" of the Commission is not in line with the spirit of FP6 giving more leeway to the coordinators. Corrective actions are wished for quickly.