

## POLICY BRIEF #9

### European Union: Innovation Policy And Small And Medium-Sized Enterprises



By creating better jobs, building a greener society, and improving the quality of life, innovation policy plays a key role in the EU economy. Through research and technological development (RTD) framework programs, the EU seeks to remain competitive in the global marketplace, while improving people's quality of life with new and better services and products. In 2020, the EU spent 2.3% of its annual GDP on research and development (R&D), which is smaller than what the USA and Japan had invested in the same year (3.45% and 3.26% respectively) (1).

Micro, small and medium-sized enterprises (SMEs) constitute 99% of companies in the EU, contributing to more than half of the total added value created by all businesses. There were

estimated to be approximately 23.1 million small and medium-sized enterprises (SMEs) in the European Union in 2022, with the vast majority of these enterprises micro-sized firms, which only employed fewer than nine people (2). Research and innovation are crucial to the sustainable success and growth of SMEs in the EU. The *Horizon 2020* programme for the 2014-2020 period aimed at creating a better and more comprehensive support environment for the research and innovation activities of SMEs, including major simplification through a single set of rules (3).

Horizon 2020 was the EU's research and innovation funding programme from 2014-2020 with a budget of nearly €80 billion. The programme has been succeeded by *Horizon*

*Europe*, a funding programme for research and innovation with a budget of €95.5 billion until 2027 (4). Horizon 2020 is the financial instrument implementing the Innovation Union, a *Europe 2020 Strategy* flagship initiative aimed at securing Europe's global competitiveness (5). The Europe 2020 Strategy was launched by the European Commission in 2010 to promote smart, sustainable, and inclusive growth across EU member states (6).

Since 1984, the EU has funded research via Framework Programmes for Research and Technological Development. Horizon 2020 was the eighth of such programmes (7). Part of this programme, and under the section “societal challenges”, is the *SME instrument*. With €3 billion for 2014-2020 (or 33% of the whole Horizon 2020), the EU's SME instrument strived to support innovation in SMEs and start-ups by filling the gap in funding and increasing commercialisation of research results, helping companies to scale up and internationalise (8). In 2019, the SME Instrument became the European Innovation Council (EIC) Accelerator for the period 2021-27.

Integrated into the 3rd pillar (“Innovative Europe”) of Horizon Europe, the EIC aims to boost

Europe's economic growth by bringing visionary ideas to market. To meet this objective, the EIC offers a range of complementary funding through the “EIC Pathfinder” (Novel ideas for radically new technologies), “EIC Transition Activities” (transformation of research results into innovation) and “EIC Accelerator” (deployment of innovation to market) programmes. Like its predecessor, the EIC Accelerator is a funding instrument for SMEs and start-ups that develop breakthrough innovation projects with high growth potential (9).

The EIC Accelerator remains the largest and most competitive public funding programme in Europe with success rates of less than 3%. It provides funding for an average of 30 to 40 companies per call, via 3 to 4 calls for projects per year. Under Horizon Europe, the EIC is expected to benefit from a total budget of around €10 billion over 7 years, with a large majority of the funds allocated to the EIC Accelerator programme (10), which represents a good portion of Horizon Europe's total budget of €95.5 billion.

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