

Impact of the Strategic Technologies for Europe Platform (STEP) on the EIC Accelerator

Summary

The EIC Accelerator is the most impactful and coveted funding instrument that the EC has at its disposal to fund high-risk deep-tech innovation. The funding decisions made by the EIC in the coming years will durably shape the future of European deeptech, with €7 billion currently allocated to the EIC Accelerator to fuel the next European champions in strategic domains such as quantum, bioinformatics, high-performance computing, cybersecurity, cleantech, healthcare, etc.

As part of the revamp of the EU Multiannual Financial Framework (MFF) presented in June by the European Commission, the EIC is now in line for an extra €2.6 billion for the Accelerator programme to provide, via the EIC Fund, additional equity funding of €15-50 million to support scale-up of companies in three strategic areas: deeptech, cleantech and biotech.

The EAIC commends the European Commission for this proposed reallocation of budget as access to sufficient capital post-initial funding will allow the selected scale-ups to continue their R&D efforts, scale their operations, and maintain a steady growth trajectory without resorting to non-European investors.

However, early-stage startups are not targeted by this new EIC Fund compartment: they will have to rely on the normal EIC Accelerator budget, which will see a significant decrease in 2024, from €1.09 billion in 2023, to €563 million in 2024 available for new EIC Accelerator laureates.

The EAIC is very concerned that this approach will reduce available funding for promising early-stage start-ups and discourage them from applying, given the substantial effort required and likely low success rate (estimated to 2-3%). The EAIC believes that it is very important that the EIC Accelerator is seen as an attractive source of grant funding, with a high-quality evaluation process and a realistic chance of obtaining funding.

We therefore support strongly the €10 billion for the Strategic Technologies for Europe Platform (STEP), and specifically the €2.6 billion budget, as long as it can benefit both startups and scale-ups.

Given the budget limitations observed in 2024, it seems essential that:

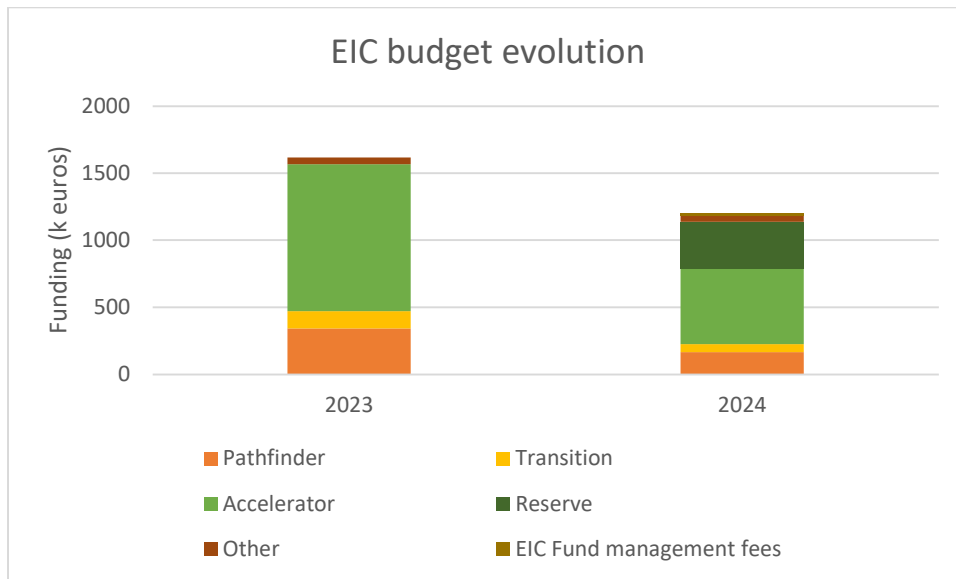
1) the reduced 2024 budget (€563 million) is used primarily for the grant component of the EIC Accelerator, so it is possible to award at least 200 grants to non-bankable high-risk SMEs in 2024, a similar number compared to 2022 and 2023 (instead of awarding only 100 blended finance cases with the same budget).

2) the additional STEP budget (€2.6 billion i.e. €650 million per year) is used for equity investments in strategic domains regardless of funding ticket size, so early-stage startups (which are not yet scale-ups) can benefit from the STEP compartment without drawing from the original 2024 budget.

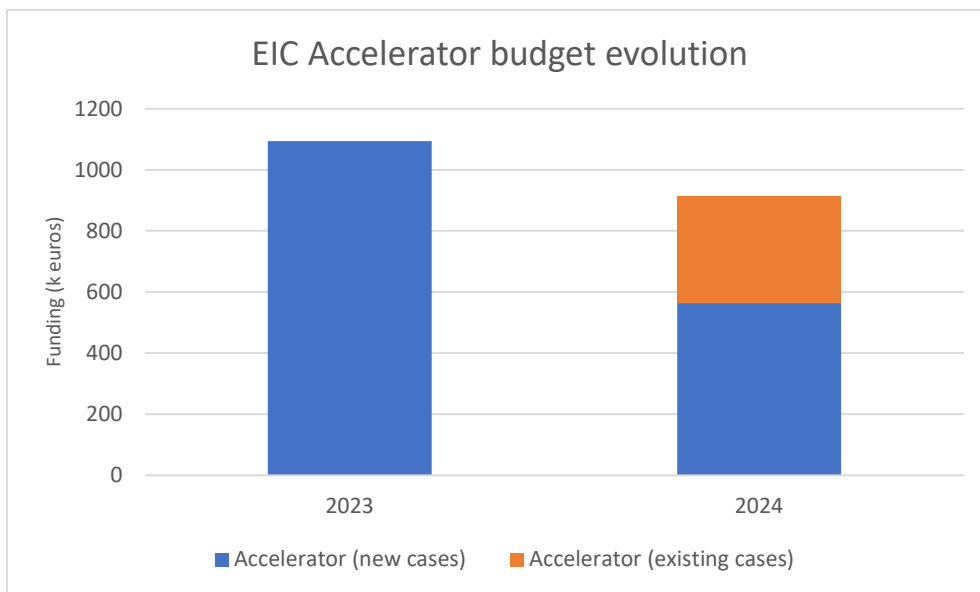
What are the budgetary issues at stake?

The current EIC draft work programme for 2024 shows a drastic reduction in available funding. Due to the withdrawal of Next Generation EU funding (€450 million in 2023), the total EIC budget is forecasted to go from €1.61 billion in 2023 to €1.2 billion in 2024.

However, considering the new EIC Fund management fees (currently in negotiation) and the need to reserve funding (€350 million) for existing Accelerator laureates (investment component of grant-first cases or follow-on funding for equity recipients), the budget decrease is even more substantial, from €1.61 billion in 2023 to €832 million in 2024.



This 50% reduction has been applied to all EIC instruments (Pathfinder, Transition, Accelerator), leading to a decrease from €1.09 billion in 2023 to €563 million in 2024 for new EIC Accelerator laureates.



The forecasted budget change implies that the number of companies selected for funding will mechanically be divided by two, as well as success rates, assuming funding application numbers remain stable between 2023 and 2024. This is particularly worrying as success rates could decrease to 2-3%, close to success rates observed in 2020.

The Strategic Technologies for Europe Platform (STEP)

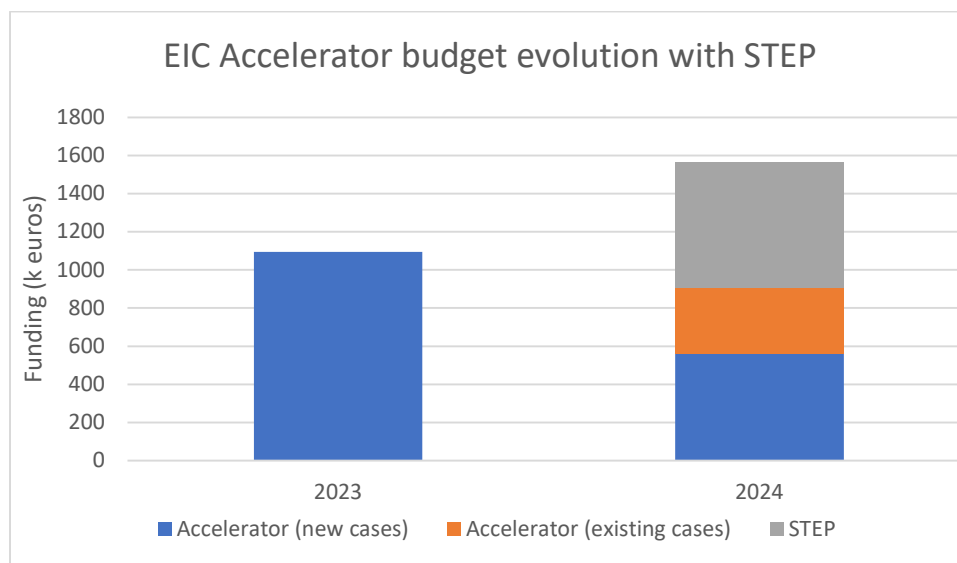
The European Commission is proposing to redirect €10 billion towards the Strategic Technologies for Europe Platform (STEP) with primary focus on three strategic sectors: deeptech, clean tech, and biotech.

The idea of a sovereignty fund was originally proposed by President von der Leyen to boost resources for preliminary research, innovation, and strategic industrial projects. Now, the European Commission suggests channelling these funds through existing EU programmes, thus avoiding the need to establish a new funding framework.

This approach not only preserves the essence of the original idea but also circumvents the need to re-create existing structures. It allows for a concentrated focus on current needs without the complexities that could arise from negotiations over a new fund. Given the difficulties and delays encountered when setting up the EIC Fund, it seems indeed wise to avoid a new trial-and-error cycle.

The EIC programme is in line for a €2.6 billion budget increase (€650 million per year over 4 years), meant to provide equity-only support to high-risk SMEs scaling up strategic technologies, with equity-only investments between €15 million and €50 million.

Although this budget increase is critical to support European scaleups in strategic domains, it will not increase the number of early-stage startups newly funded by the EIC Accelerator, as meant to be reserved to more mature companies (scale-ups) that will fulfil the requirements set by the EIC Fund for a €15-50 million investment ticket (revenue traction, strong private investors able to lead the next round, etc.)



Funding startups or scaleups?

EIC Accelerator evaluators have always had to resolve a dilemma when selecting applicants for funding.

Should they select “non bankable” startups, that struggle to raise private financing for a yet unproven breakthrough innovation (with the risk that the investment component of the EIC Fund may never materialize if the company fails to secure a lead investor)?

Should they - on the contrary - go for “proven” start-ups (or even scale-ups), that have clear interest from venture-capital firms (which may not fulfil the mission of the EIC Accelerator of addressing the gap in early-stage investments for deeptech innovations)?

Since the official positioning of the EIC Accelerator is still somewhat unclear, the final decision is currently delegated to the interview jury, which has led to inconsistent decisions (some very successful companies being rejected for being too successful and not needing EIC funding, while other less successful companies being rejected for not having secured a lead investor already at the time of the interview).

Will the new STEP budget help solve the dilemma? Possibly. The new work programme draft is proposing that, starting next year, the equity decision (for all cases) will not be taken by the interview jury any more, but by the EIC Fund. Therefore, we would recommend an approach by which the main Accelerator budget for new cases (€563 million) is allocated as grants (via the interview jury) while the STEP budget (€650 million) is allocated as equity (via the EIC Fund).

This dual track would have several benefits:

- Ring-fencing budget for new cases (€563 million could fund 225 grant cases, which is the number of cases funded in 2022) while keeping reserve budget (€350 million) for grant-first cases from 2022 and 2023.
- Clarifying the evaluation criteria for early-stage startups looking for grants (who do not need to demonstrate traction with private investors yet).
- Clarifying the evaluation criteria (and eligibility) of more mature startups ready to request equity (who do need to have a convincing syndication plan with potential lead investors lined up).

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Appendix – Supporting Documents

- Mid-term revision of the Multiannual Financial Framework 2021 – 2027, SWD(2023) 336 final – [Link](#)
- Naujokaitytė G.. *European Innovation Council in line for an extra €2.6B in EU budget review*. Science|Business, 20 June 2023 – [Link](#)
- Naujokaitytė G.. *Underwhelmed but relieved: Brussels policy bubble weighs in on EU budget update*. Science|Business, 22 June 2023 – [Link](#)

About EAIC

The European Association of Innovation Consultants (EAIC) gathers active Innovation Consultants in the field of European research and innovation projects. The Association aims to facilitate the exchange and promotion of best practices, as well as to uphold professional skills and expertise in European RDI funding. To date, the group gathers more than 50 members, active throughout Europe.

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