Box 9.3: The new European Innovation Council

The European Innovation Council became fully operational in 2021. Its role is to fill the financing gap for innovative start-ups and small and medium-sized enterprises (SMEs), in full alignment with the European Commission’s recommendation for the establishment of a private public fund specializing in initial public offerings of SMEs.

This gap is particularly acute when it comes to disruptive and breakthrough innovation where technology and market risks are high. The Council will complement member states’ own support for innovation. It is expected to give a significant boost to innovative start-ups and SMEs in Europe, creating a pipeline of promising projects for InvestEU and venture capital and, thereby, giving Europe a leading position in future tech-based markets.

In 2017, the Commission launched the first pilot phase for the future European Innovation Council. Since then, 2,078 projects have received funding totalling over €893 million. Building on this, an enhanced pilot phase was launched in March 2019.

This latter phase has enabled the Commission to test the main changes brought in under Horizon Europe. For instance, Horizon Europe introduces targeted calls for future and emerging technologies under the European Innovation Council’s Pathfinder Pilot, which employs external programme managers to ensure flexible management of the portfolio of projects.

Horizon Europe also provides scope for innovators to apply for blended finance (combining grant funding and equity) under the European Innovation Council’s Accelerator Pilot. A total of €1 billion will be allocated under Horizon 2020 over 2019–2020, of which at least €100 million will be in the form of equity.

The European Innovation Council’s Accelerator will target cases where there is strong potential for upscaling but the risks are too high for private investors, such as in highly disruptive, deep-tech areas.

In line with the provisions outlined in Horizon Europe, a specific entity will be established to manage equity investments and crowd-in investments from private investors. In 2020, this entity was still in the process of being set up, with support from the European Investment Bank Group.

Source: EC (2019b)

UNESCO SCIENCE REPORT (2021)

goals tackling some of the EU’s biggest challenges related to health, climate change, clean energy, mobility, security, digital, materials, etc. This pillar will also support partnerships with member states, industry and other stakeholders to work jointly on research and innovation.

The Innovative Europe pillar aims to use the European Innovation Council to make Europe a frontrunner in market-creating innovation and support for SMEs. In parallel, the European Institute of Innovation and Technology (est. 2008) will continue to foster the integration of business, research, higher education and entrepreneurship.

Pillars 1 and 3 of the Horizon Europe programme focus on a free-thinking, bottom-up approach with the European Research Council (pillar 1) being to breakthrough science what the European Innovation Council (pillar 3) is to market-creating innovation. Both build on the principle of open international competition for funding based on the sole criterion of excellence. After a positive assessment, the European Research Council benefit ed from an increased budget over 2015–2020.

In parallel to the quest for scientific excellence, there has been a growing policy concern over the low level of private investment in high-growth or high-risk tech companies in the EU. Venture capital is bigger in the USA, favoured by the larger market potential. According to the European Commission, the EU counts only 8% of the world’s start-ups that have managed to raise €1 billion in funding (‘unicorns’), far less than the USA, which counts almost 50% of unicorns, and Asia.

In comparison with the USA, Europe’s venture capital market remains underdeveloped at all stages of enterprise development: inception, growth and scale-up, seed-capital, start-up and later-stage development funding (EC, 2019b). European start-ups often move to the USA to tap into the resources available there. For instance, in the USA, there is 14 times more later-stage capital than in Europe.

This deficit as the rationale behind setting up the European Innovation Council as a flagship initiative under pillar 3 of Horizon Europe (Box 9.3). A mission-oriented approach

The second pillar of Horizon Europe addresses societal challenges, with the introduction of two novelties. The first of these is a broader clustering of societal challenges that had already been addressed by Horizon 2020 as part of an overall strategy to foster a transsectoral, multidisciplinary approach to research and innovation. The second novelty is a stronger transformative approach to innovation policy which draws inspiration from mission-oriented research and innovation.

In 2017, the Directorate-General for Research and Innovation began exploring how the policy design applied by the USA’s classic Moonshot mission within the Apollo programme (1961–1975) could be applied to solving societal challenges on Earth. The European Commission launched several studies scanning similar policy initiatives around the world that were more recent and mainly technological in nature. It also amassed opinions from academic experts in Europe and beyond. This rich evidence base was ventilated in an open ref le tion involving policymakers responsible for innovation in EU member states (Mazzucato, 2018; RISE, 2018; EC, 2018b; EC, 2018c).