



Round Table

**INVESTING IN SECURITY:
STIMULATING INNOVATION**
A New Role for SMEs in NATO & EU

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Executive Summary

The 2017 Round Table Series on “Investing in Security: Stimulating Innovation” gathered key policymakers and senior industry representatives to exchange best practices and explore new opportunities for a stronger engagement between the Alliance and small and medium-sized enterprises (SMEs), particularly in areas of knowledge sharing, technical assistance, early warning systems and cybersecurity to stimulate greater innovation and maximize the efficiency of Euro-Atlantic defence spending. The Atlantic Treaty Association (ATA) is the NATO selected platform to provide NATO HQ, NATO Support & Procurement Agency (NSPA), European Defence Agency (EDA) and industry representatives the environment for engaging in an exchange of best practices to help delivering innovative capabilities that emphasize improving innovation, procurement procedures, research and development. The Round Table “Investing In Security: Stimulating Innovation. A New Role For SMEs In NATO & EU” serves as an opportunity for senior authorities from NATO, NSPA and EDA to coordinate directly with leaders of industry from both major corporations and SMEs to explore opportunities for an SME Advisory Group which aims to bring innovative solutions to Allied capabilities. Likewise, the Round Table offers industry and SMEs key insight into the priorities of NATO and EU while working collaboratively with industry to develop new concepts for a more seamless cooperation. The overall goal is to facilitate NATO-Industry-SME engagement during the development, procurement and acquisition process by informing participants of the rules of engagement to maximize contributions, capabilities and the use of resources. The key outcome is a better coordination of a comprehensive defence investment strategy that permits new SMEs opportunities for partnership and to stimulate greater innovation within the supply chain.

The report observes the Chatham House rules by not attributing the remarks, and compiles the contributions of the participants as they were expressed. The conclusions and the recommendations are advisory, they represent the views of the individual participants, and do not necessarily reflect the positions of their respective organisations.



Introduction

The second instalment of the Investing in Security Round Table Series, titled “Stimulating Innovation: A New Role for SMEs in NATO and EU”, held on July 12th, 2017 was devised to accomplish three goals:

- To bring together industry including SMEs, NATO and EU officials and policy makers to discuss how to better coordinate investments in innovation with an emphasis towards creating a faster process of acquisition and procurement.
- To pool innovative practices on research and development and procurement.
- To stimulate a greater engagement between NATO and SMEs within the context of the Trans-Atlantic Defence technological and Industrial Cooperation (TADIC).



Overview

- The bureaucracy and the limited access to funds make it harder for SMEs to compete and survive. Political support from their own nations, alongside incentives for SMEs are required to successfully compete for tenders in NATO and its member countries.
- SMEs have a strategic value as innovators and incubators of new ideas and technologies. NATO and EU need SMEs to ensure meaningful capabilities in different aspects of the supply chain.
- According to the [Handbook for Defence related SMEs](#), small and medium-sized enterprises play a central role in the complex defence supply chains in Europe. Therefore, NATO and EU should increase their efforts in supporting SMEs to enter the supply chains and facilitate their development.
- Access to funding should be a priority for both NATO & EU by supporting SMEs access to information and finance to create sustainable business opportunities.
- It has been stated that positive discrimination of SMEs is expected to help boost their competitiveness.



Innovation

- Innovation is vital for delivering the capabilities needed currently or in the future. SMEs are mainly innovators. NATO and EU should create a framework to encourage innovation through the Identification, Assessment and Implementation of opportunities for SMEs.
- Create an environment that encourages innovation to support SMEs to:
 - Successfully compete for NATO tenders;
 - Establish a possible NATO venture capital fund for demonstrators and prototypes.
- Given that multiple SMEs have a very specific niche domain they operate in, the following policies were recommended:
 - Help SMEs enter the tier 1 companies' supply chain.
 - Identify specific acquisition packages for which SMEs can compete.
- Procurement policies should encourage SME participation by incentivizing the engagement with companies that employ SMEs from NATO countries in their supply chain over companies that don't.
- In the identification process, EU, NATO and national governments could facilitate:
 - Trade shows where nations and SMEs find each other.
 - Opportunities where innovative companies pitch their ideas. Likewise, EDA, NATO and national governments could advertise their requirements.
- The dual role of SMEs working in the defence and civil sector should be encouraged.
- NATO and EU should continuously support SMEs and their incubator capabilities:
 - The EU is working on a mechanism to support the development of business incubators for SMEs.
 - The Allied Command Transformation is working to establish a venture capital fund for demonstrators and prototypes for SMEs.

Investment In Information/Education

- NATO & NSPA could generate an SME database to ensure SMEs are more informed about opportunities.
- National procurement laws should be translated to break down language barriers which make it hard for SMEs to enter the defence sector in different nations.
- NATO & EU can create a forum to inform member states on how to best support SMEs in their countries.
- National Defence Industry Associations should inform the SMEs in their own nations via regular briefings that involve also ministries of economy.
- NATO should encourage big companies to educate SMEs to improve their business capabilities.



Conclusions & Policy Recommendations

- Representatives from NATO, EDA, industry and SMEs recognize the potential value of an SME Industry Advisory Group (AG) and favour its inception.
- The AG should be created and managed by ATA and should include:
 - Policy representatives from NATO & EDA to inform about the priorities for both organizations and the opportunities for SMEs.
 - Representatives from cutting edge SMEs which can outline the needs of SMEs.
 - Prime Industry representatives that could provide technical and process assistance.
 - Representatives of financial institutions such as investment banks, private equity funds or venture capitalists that could help to close the existing financial gaps.
- Existing mechanisms to support and educate SMEs should be optimized, the AG should rationalize and point out what already exists and assist in creating new opportunities.
- AG should provide technical and process assistance to SMEs by informing about the opportunities offered by NATO and EU and support SMEs that could potentially be able to respond.
- AG should analyze what is currently preventing capital flow to SMEs and recommend measures to address this.

- AG should support SME access to information and resources, including both finance and know-how, by engaging in a structured public and private dialogue.
- AG should serve as a networking platform between NATO & EU policy makers, SMEs and finance institutions.
- AG should support and encourage change in the procurement policies of NATO and its member states to incorporate SMEs and facilitate less restricted access to defence sector tenders for SMEs.
- NATO & NSPA should establish a possible NATO venture capital fund for demonstrators and prototypes.
- NSPA could identify acquisition packages on which SMEs can compete.
- NATO & NSPA should incentivise the engagement with companies that employ SMEs from NATO countries in their supply chain over companies that don't.
- In the identification process, EU, NATO and national governments could facilitate:
 - Trade shows where nations and SMEs find each other.
 - Opportunities where innovative companies pitch their ideas, and where EDA, NATO and national governments advertise their requirements.
- AG could represent a platform to advocate for SMEs opportunities, exchange information, and identify and facilitate interaction primarily between SMEs, and whenever required, with prime contractors.