Financing Innovation at scale – financial instruments, S3 & STEP

18 February 2026

Agne Kazlauskaite

DG REGIO, European Commission

Unit B3 - Financial Instruments and International Financial Institutions Relations

Strategic focus on closing innovation gap: STEP, S3 and financial instruments

- Europe's competitiveness agenda requires **faster scale-up of strategic technologies and stronger EU value chains.** Strategic enablers: SIU, CC, SSS. Access to finance: **more Equity, VC**

- **STEP** provides a common EU platform for strategic tech investments in clean tech, biotech, digital/deep tech.

- **Smart Specialisation (S3)** is a practical framework to translate **place-based strengths into industrial and innovation investment pipelines in STEP domains.**

- **EU Cohesion financial instruments –** tools **to finance closing innovation gap & leverage private funds**

STEP- S3: Synergies

S3 is the vehicle to connect MS/regions to STEP by:

- picking **credible niches** in STEP based on capabilities/assets/challenges
- **mobilising actors** (industry-research-public sector)
- translating priorities into **calls, projects pathways and value-chain inputs**
- keeping investments **territorially-grounded**, performance-oriented, and stakeholder-driven.

A Commission-contracted study finds **high thematic overlap** between S3 priorities and STEP domains:

- Regions are well-positioned to contribute to STEP: **84% of S3 priorities match at least one STEP domain.**
- Most frequent matches: clean/resource-efficient tech and digital; biotech appears often combined with clean/digital.
- Regions are already using S3 to sharpen STEP-relevant niches

Innovation funding gap

ERDF Equity financial instruments (fi-compass.eu)

- **Start-ups are crucial** to achieve the goals of the EU competitiveness agenda
- They are important in any innovation ecosystem aiming to **deliver breakthroughs to the market**.
- **They are key contributors to jobs creation** and sustainable European prosperity
- Despite many innovative and promising start-ups in EU Member States, very often innovative companies remain small or, after, relocate elsewhere, even outside Europe, to seek investors
- This is typically due to a **lack of suitable funding** tailored to support companies through the different stages of a start-up' life-cycle.
  - compared to the US for example, the amount of venture capital financing for the early stage of innovative projects is relatively limited due to the actual or perceived level of risks and the risk appetite of the market financiers or lack of developed regional/national ecosystem
  - As a company grows, its need for investment increases meaning access to equity, quasi-equity products such as Venture Debt and lending is key to sustain and support the enterprise

→ need for more dedicated forms of finance

HOW SHALL WE FINANCE INNOVATION?

PUBLIC FUNDS?

PRIVATE FUNDS?

RETAIL FUNDS?

GRANTS?

LOANS?

EQUITY?

Equity combined with grant is the solution?

VC is well known as the best mean to support Innovation but …

- The development of an innovative product or process **may not be fully linear**
- Most enterprises welcome a grant ☺
- A grant is needed at all stages of lifecycle

Stage	TRL	Financial product	Grant
'Pre-seed'	1-3	-	• Accelerating capital grant • Technical support
Seed The first phase of the business cycle, when the founders create and develop the business idea	4-5	**Seed capital (equity)** Covers the initial costs of developing an investment proposal Co-investors: FFF, public sector, PE firms, BA, corporate investors, crowdfunding platforms	• Technical support • Accelerating capital grant
Start-up This phase entails the concrete outset of business activities	5-8	**Start-up capital** • Equity (first round / series A) Co-investors: FFF, PE firms, BA, banks, VC, crowdfunding	• Technical support • Accelerating capital grant
Early growth This is the stage where the company begins to grow	7-8	**Early growth capital** • Equity (second round / series B) • Quasi-equity Co-investors: management team, corporate investors, VC, crowdfunding	• Technical support • Accelerating capital grant
Expansion This phase entails a company's sales growing steadily and consistently	9	**Expansion capital** • Equity (third, fourth round / Series C) • Quasi-equity • Loan Co-investors: management team, banks, mezzanine providers, corporate investors, VC, crowdfunding, IPO	• Technical support • Accelerating capital grant
Maturity	9	Debt	Interest rate subsidy

Technology Readiness Level (TRL) describes the stage of development of a new technology (1 to 9)

Financing Models for competitiveness and innovation

Model Equity and Grant combined

- VC and equity investors
- Enterprises in pre-seed, seed and start up

Financial instrument for competitiveness and innovation: Equity combined with grant

The fi-compass quasi-equity model financial instrument for SMEs | fi-compass

Model Loan and Grant combined

- Banks and National Promotional banks
- Enterprises in growth and mature stage

Financial instrument to support innovation in enterprises and innovative enterprises: Loan combined with grant