



The AI Act: help or hindrance for SMEs?

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This guest blog post was written by [Massimo Pellegrino](#).

The technological development of artificial intelligence (AI) is proceeding rapidly, with investment in AI-based solutions

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(the AI Act). To ensure the fairness and trustworthiness of all high-risk AI systems that are deployed within Europe, the AI Act will require AI systems to undergo compliance and conformity assessments, which will be costly for companies, especially SMEs. SMEs are at the forefront of innovation in Europe, but they are easily crippled by high costs of compliance, risking bearing an unsustainable burden.

To get a more realistic estimation of the costs and to shed a light on the many ways SMEs can distribute compliance costs, Intellera Consulting conducted a research using a panel of European SMEs that are AI providers.

Helping SMEs face compliance costs

Building on the seminal work of the “[Study to Support an Impact Assessment of Regulatory Requirements for Artificial Intelligence in Europe](#)” (IARR), Intellera Consulting’s research probed deeper into compliance costs for SMEs by developing four scenarios and applying them to a standard AI provider SME [1]

The main objective of the paper was to estimate the costs that SMEs would face to ensure compliance with the requirements of the AI Act. To do so, we envisioned the following four scenarios:

- Scenario 1 adapted the IARR standard cost model – which calculates the total costs as the sum of compliance and conformity costs – to the modelled SME, dividing the total AI market value by the value of one AI unit, then multiplying it by compliance costs.
- Despite following the standard cost model approach, Scenario 2 calculated compliance costs on the basis of R&D value instead of the total AI market value.
- Scenario 3 provides an alternative approach whereby total costs are not calculated as a proportion of AI value, but rather, consist of software development costs and costs for compliance activities in relation to R&Ds.
- A fourth scenario (Scenario 3b) builds on the assumptions of Scenario 3 and further includes cost savings for SMEs arising from the involvement of European Digital Innovation Hubs (EDIHs) and Testing and Experimentation Facilities (TEFs).

The results of the analysis show that if compliance costs are calculated as in Scenario 3 (€301,200), they are more than 10 times lower than costs calculated as a direct proportion of the AI market value (about €4 million in Scenario 1). When EDIHs and TEFs are included in the analysis (Scenario 3b), costs are expected to further drop (€229,444), as are the FTEs needed to comply with the requirements.

A better-regulated market that also helps innovation

[Intellera Consulting’s paper](#) provides an alternative approach to estimating compliance costs for a small-medium AI provider and represents a first attempt to analyse the impact the AI Act will have on SMEs.

For SMEs and digital innovation to thrive, European policymakers must strike the right balance between regulating the ecosystem and helping SMEs, which are at the forefront of innovation, and are already facing big challenges due to the pandemic and the energy crisis.

As has been demonstrated in this paper, EDIHs and TEFs will play a significant role in mitigating the costs of compliance for SMEs when adhering to the AI Act requirements. Timely involvement of EDIHs and TEFs – through the development of common technological, legal, and management services – is recommended to activate economies of scale and generate cost

crippled by high compliance costs. If the cost of compliance will be as high as those predicted by the impact assessment, the consequences on SMEs would be severely negative. We believe that a forward-looking perspective, which goes beyond the compliance costs, would increase SMEs confidence in embracing AI-based solutions that are fair and trustworthy. To this purpose, we suggest that a dedicated study, estimating benefits and valuating the actual impacts of the AI Act on SMEs, should be developed at the European level.

[1]The modelled SME presents the following features: Total revenue (Dec-2021): € 23.2 mln; AI R&D share: 15% of total revenue (€ 3.4 mln); Number of employees (Dec-2021): 150; Of which developers: 50

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Massimo Pellegrino is a Partner at Intellera Consulting and has extensive experience in the field of emerging technologies and innovation management, including the ethical development, assessment, and uptake of Artificial Intelligence solutions. As a PwC Partner, Massimo was the New Ventures Lead, focusing on AI services. Prior to joining PwC, he worked as worldwide Vice President at Hewlett Packard.

Intellera Consulting is a consulting company born at the beginning of August 2021 from the management buyout of PwC Italy Public Sector. Intellera has increasingly focused on international projects working with a wide number of EU Institutions (including various DGs of the European Commission, such as DG CONNECT, DG GROW, DG SANTE, the Joint Research Centre), EU decentralised agencies (such as

Cedefop, ECHA, EFSA, ESMA, ETF, and many more) and other EU bodies and international independent organisations (such as the EIB and the EPO).

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