



EUROPEAN COMMISSION

Brussels, 30.11.2011
SEC(2011) 1428 final

Volume 2

COMMISSION STAFF WORKING PAPER

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the

COMMUNICATION FROM THE COMMISSION

'Horizon 2020 - The Framework Programme for Research and Innovation'

**PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT AND THE
COUNCIL**

**laying down the rules for the participation and dissemination in Horizon 2020 – the
Framework Programme for Research and Innovation (2014-2020)**

PROPOSAL FOR A COUNCIL REGULATION

**on the Research and Training Programme of the European Atomic Energy Community
(2014-2018) contributing to the Horizon 2020 – The Framework Programme for
Research and Innovation**

{COM(2011) 808 final}

{SEC(2011) 1427 final}

1. PROBLEM DEFINITION

The purpose of the Rules for Participation and dissemination (hereinafter **RfP**) is to implement the EU's multi-annual Framework Programmes (hereinafter **FPs**).

The prerequisites for attaining the expected level of participation in the FPs are clarity of their rules and instruments, an overall participant-centred orientation, consistency and stability, as well as lightness and speed of administrative procedures. At present, the biggest obstacle to participation in the research FPs is the **complexity of administrative procedures** along with the **administrative burden**. Thus, simplification was a priority in the comments from stakeholders and in the documents from the institutions involved. Current shortcomings were attributed to the constraints imposed by the Financial Regulation in force, the design of the FP or management choices of the Commission. This impact assessment addresses the simplification potential of the provisions of the RfP, bearing in mind that the benefits of any simplification measure must outweigh its disadvantages.

The consultations carried out have revealed that participants find it very burdensome to apply different sets of rules depending on the EU research and innovation programme concerned and they want greater **consistency of rules between instruments**. Under FP7, the number of intervention mechanisms has increased, in particular with the participation in joint programmes of Member States ('Article 185 Initiatives')¹ and the creation of Joint Technology Initiatives (JTIs)². Each of these mechanisms has its own distinct rules with its separate legal and administrative framework. Also, the Competitiveness and Innovation Framework Programme (CIP) follows rules different than FP7. Finally, the European Institute of Innovation and Technology (EIT) implements its actions by supporting Knowledge and Innovation Communities (KICs) also under ad-hoc provisions.

According to the objectives for the EU 2020 Strategy, rules must also **contribute to achievement of 'Innovation Union' Flagship Initiative objectives** including more synergies between research and innovation. Among the main factors contributing to extending the innovation impact of FPs, a key role is given to the participation of innovative enterprises, in particular SMEs, whose relevance for innovation has been widely demonstrated. Another element, currently applied only on a limited pilot scale, refers to mechanisms for funding innovation via new forms of procurement.

In addition, a cross-cutting issue for implementation of the FPs is the necessity to provide appropriate mechanisms for international cooperation. During its first four years FP7 has funded projects with participant organisations from as many as 169 countries.

¹ Article 185 TFEU Initiatives are set up at European level for integration of national research and development programmes by the participation of the European Union in joint programmes undertaken by several Member States.

² A JTI is set up as a legally established body on the basis of Article 187 of the TFEU. Each JTI is accountable to its founding members as well as to the Council and the European Parliament. .

The last issue is the need to introduce a risk/trust balance. Currently too many procedures, in particular regarding financial controls, appear to be designed exclusively to ensure a very low risk of errors, but also result in control mechanisms perceived as rigid and excessive.³

Finally, it should be noted that simplification should be pursued not only in the definition of the rules but also in their application.

2. THE NEED FOR ACTION AT EU LEVEL

The legal bases for EU and Community action in this matter are respectively Article 183 of the Treaty on the Functioning of the European Union (hereinafter TFEU) and Article 7 of the Euratom Treaty. The principle of subsidiarity does not apply in this case. The principle of proportionality is satisfied inasmuch as the proposed simplification and rationalisation ensure that EU action would not go beyond the minimum necessary to achieve the objective of ensuring the implementation of Horizon 2020.

3. OBJECTIVES

The general objectives of the initiative are to:

- To ensure implementation of the Horizon 2020 multiannual FP. The aim of the proposal is to provide a coherent, comprehensive, transparent and effective set of rules taking into account participants' concerns through simplified and harmonised procedures;
- To help achieve the objectives set out in the Commission's initiative 'Europe 2020 – a strategy for smart, sustainable and inclusive growth', at the core of which are research and innovation and in particular the 'Innovation Union' flagship.

The specific and related operational objectives are described below:

1. To increase attractiveness and accessibility for participants by:
 - simplifying the funding provisions related to grants;
 - reducing the administrative burden for participants.
2. To find a good balance between the need for harmonisation and the need for flexibility by:
 - enlarging the scope of the RfP, in order to set up a common set of basic principles;
 - allowing for flexibility to address specific needs of the Horizon 2020 initiatives, e.g. EIT.
3. To ensure appropriate and harmonised protection of the EU against risks of participants' errors and insolvency by:

³ In line with guidelines of the Commission, impact of legislative proposals for Horizon 2020 and its rules on this objective will be thoroughly analysed in the Financial Statement accompanying the Framework Programmes and therefore is not referred to in this impact assessment.

- finding the right balance between effective implementation of the EU control strategy and a lower control burden for beneficiaries, leading to a reduced amount of participants' errors;
 - extending the scope of the **Participant Guarantee Fund** (hereinafter **GF**) to all actions financed under Horizon 2020 (thus including also CIP, EIT, JTI and Article 185 Initiatives).
4. To achieve strategically targeted international cooperation that will contribute to achieving the Horizon 2020 objectives:
- greater targeting of research funding (revision of the current provisions on funding of entities from certain third countries and replacement of the former International Partner and Cooperation Countries (ICPC) list);
 - facilitating European participation in international research actions (funding of International Organisations and of entities from third countries);
 - enhancing instruments for strategic focusing (joint calls for proposals).
5. To boost innovation by:
- increasing the participation of industry and SMEs;
 - providing adapted instruments for promoting innovation;
 - stipulating an appropriate legal framework for exploitation and dissemination of results.

4. POLICY OPTIONS

In order to achieve these objectives, two independent sets of options tackling the two main policy issues have been developed.

A: Scope of the rules. As the future EU initiatives for promoting research and innovation are intended to be merged into the Horizon 2020 FP, the question is whether it would be convenient to keep separate sets of rules for the different actions (current situation), or to have – where possible – a single set of rules under the Horizon 2020 FP.

B: Content of the rules, namely whether or not it would be convenient to modify the current provisions in order to meet the policy objectives specified above.

4.1. Policy issue: Scope of the rules

4.1.1. Policy option A1 – ‘Business-as-usual’ option (keeping the same scope in the RfP respectively for EU and Euratom)

Under this option, different sets of rules governing participation in different research and innovation actions will be kept: each set of rules will be set out in a ‘tailor-made’ regulation, thus allowing for a maximum level of flexibility.

4.1.2. *Policy option A2 – Adopting a single set of RfP implementing the Horizon 2020 FPs and setting basic common principles while allowing flexibility.*

Under this option, where possible a single set of common rules would regulate the key common aspects of all actions of the future FPs, such as excellence, funding rates or eligibility of costs. This set of rules would be adopted in two different legislative acts, one for the EU and one for Euratom FPs.

4.2. Policy issue: Content of the rules

4.2.1. *Policy option B1 – ‘Business-as-usual’ option (keeping the same content in the RfP for future FPs)*

This option envisages continuation of the current practice; introducing no changes to the conditions and procedures for participation and keeping the EU financial contribution based on the reimbursement of eligible costs according to the current reimbursement rates. Other forms of financing (flat rates, scales of unit, lump sums, etc.) would be applied marginally.

4.2.2. *Policy option B2 – Modifying the RfP for the future FPs*

Under this option a number of changes would be implemented in the legal framework defined by the RfP. These changes would include:

- **Implementing provisions for pre-commercial public procurement and public procurement of innovative solutions as well as prizes;**
- **Adapting the current model of international cooperation;**
- **Modifying the rules regarding exploitation and dissemination;**
- **Extending the GF.**
- As regards the **main funding model**, three potential sub-options were identified and analysed:
- **Option B2a – Keeping the cost-based funding with simplification of the cost eligibility criteria.** This would mean continuation of the reimbursement of actual costs (with limited use of flat rates and lump sums) but applying **simplified cost eligibility criteria** allowing for broad acceptance of usual accounting practices of the beneficiaries. A single reimbursement rate per project would bring further simplification and higher flexibility in project implementation.
- **Option B2b – Output/results based funding (specific lump sum for the whole project)** would mean a radical change from the FP7 cost reimbursement system towards a system **granting project-specific lump sums for entire projects**⁴. In this scenario, the lump sums would be global amounts agreed during the negotiation phase based on the estimated beneficiaries’ inputs (costs) for the project. Payment of the EU financial contribution would be made against delivery of the agreed

⁴ Point 3.3 of the Communication COM(2010) 187.

output/results. This sub-option would entail less detailed cost reporting and financial controls but would require a closer technical assessment of the outputs/results.

- **Option B2c – Combination of sub-option 1 with a unique flat rate for indirect costs calculated on basis of direct costs as a general rule** would build on sub-option B2a adding as a general rule a flat rate for indirect costs. The possibility of reporting real indirect costs would be limited solely to non-profit participants with a full cost accounting system whose methodology for calculating indirect costs would have been approved ex-ante by the Commission. Thus, in addition to the simplification value of option B2a, it would reduce the recurrent errors due to the indirect costs calculation since this calculation would be based either on a certified methodology or on the flat rate and would simplify and increase assurance both for beneficiaries and for the Commission.

5. ANALYSIS OF IMPACTS

The RfP are complementary to the Horizon 2020 FPs, as the objectives of the Research and Innovation policies and the resources for their funding are provided for in the latter. For this reason the societal, economic and environmental impacts of the future frameworks and their European added value are presented in the Impact Assessments of the FPs.

Policy implications of harmonisation

Policy option A1 would keep the status quo. In contrast, policy option A2, introducing a harmonised approach, would represent a simplification for beneficiaries, particularly those currently participating in different actions. It would also reduce duplication of efforts for customisation of IT tools, documents, etc., as well as the complexity of the applicable rules. However, extensive harmonisation of the rules might lead to lack of flexibility. It could discourage industry participation in JTIs or deter the setting up of ‘Article 185 Initiatives’. Therefore, the possibility for JTIs and for Article 185 TFEU initiatives to apply additional rules or duly justified derogations has to be envisaged also under this option. As for the CIP and the EIT, their success is largely based on the flexibility of their rules. Therefore, the balance between harmonisation and flexibility would need to be carefully established.

Implications of modifications of the legal framework defined by the RfP

Policy option B2 would introduce a number of modifications of the legal framework, as described in Point 4.2.2. The impacts of this option would be as follows:

Pre-commercial procurement would lead to innovative solutions that could subsequently be commercialised on a larger scale. Public procurement of innovative solutions would provide funding for public procurers to purchase innovative products/services already developed, boosting their commercialisation. These two instruments would provide a supplementary system and support the transfer of research results to the market. Together with inducement prizes they would expand the innovative potential of the FPs. The modification of the rules on exploitation and dissemination generalising the principle of open access to research publications would also contribute to this aim.

Adaptation of the current mode of international cooperation would make it possible to focus more on countries which have not yet developed an advanced science and technology base but

whose engagement in EU research projects is desirable, and would also put a stronger emphasis on reciprocity.

Regarding the scope of the GF, as the actions of JTIs, Article 185 Initiatives, the CIP and the EIT are financed by the EU to a large extent and since the nature and structure of the participants is largely congruent with the FP7 population, the same protection level should be ensured.

Administrative costs and simplification effect for participants

A single set of rules would reduce the administrative burden for entities participating in different actions as it would lower learning costs. It has been estimated that entities acting as coordinators for the first time in any type of action bear an administrative cost related to their participation 11.4% higher than coordinators already familiar with the rules. In addition, the extension of the GF would reduce costs for beneficiaries and improve sound financial management for the Commission. Other modifications of the legal framework (excluding the main funding model) would have a limited impact on administrative cost and simplification.

As regards the main funding model, the impact on the costs for beneficiaries in ‘typical **average FP7 projects**’ is presented in the table below. These figures are estimations resulting from the survey on administrative costs for FP7 projects.

	Option B1 (baseline)	Option B2					
		Option B2a		Option B2b		Option B2c	
Small-scale Collaborative project (9 partners)	277.000	249.000	-10%	208.000	-25%	232.000	-16%
Large-scale Collaborative project (20 partners)	885.000	777.000	-12%	588.000	-34%	699.000	-21%
SMEs project (9 partners)	303.000	265.000	-13%	205.000	-32%	257.000	-15%
Marie Curie Individual Fellowship (1 partner)	18.000	18.000	0%	18.000	0%	18.000	0%
ERC grant (mono-beneficiary) (1 partner)	36.000	32.000	-11%	22.000	-39%	29.000	-19%

However, **when considering a radical change towards output-based funding as the main funding model, other aspects have to be taken into account.** Firstly, such a change would require major organisational changes in the Commission and the other implementing bodies, building up new skills and changing the distribution of professional profiles of staff. Secondly, time-to-grant could be affected negatively, because of the more complex and detailed negotiations for fixing project-specific lump sums and the measurable output against which they would be paid. Thirdly, the focus on output may become a disincentive to high-risk high-gain proposals for which the potential output cannot be specified and guaranteed ex-ante.

6. COMPARING THE OPTIONS

Based on the above analysis, supported by a number of ex-post evaluations, studies, statistical data, workshops with experts and external stakeholders, etc., we have summarised below the expected impact of the two sets of options.

Comparative table of the impacts on the policy objectives and other decisional considerations	Policy Options					
	Policy issue: Scope of the rules		Policy issue: Content of the rules			
	Option A1 Business-as-usual	Option A2 Single set of rules	Option B1: Business as usual	Option B2: Modifying the rules		
				Option B2a Simplified cost-based funding	Option B2b Output/result based funding	Option B2c Simplified cost-based funding with indirect costs flat rate
Policy objectives						
1.1 Simplify funding provisions	○	✓✓	○✓	✓	✓	✓✓
1.2 Reduce administrative burden	○	✓	○	✓	✓✓	✓
2. Harmonisation	✗✗	✓✓	✗✗	○	○	✓
3. Protection of EU against risks of participants' insolvency	○	✓	○	○/✓	○	✓
4. Impact on international cooperation	○	○	○	○/✓		
5.1 Economic impact on businesses including SMEs	○	✓	○	✓	○/✓	✓
5.2 Impact on innovation results	○	✓	○	○/✓		
Other Impacts						
Expectations of policymakers	✗✗	✓✓	✗✗	✓	✗	✓
Stakeholders' opinion	✗✗	✓✓	✗✗	✓	✗✗	✓
Impact on cost of implementation	○	✓	○	✓	✓✓	✓
Impact on stability of rules	✓	✗	✓	✓	✗✗	✓

Symbols: (✗) negative impact; (✓) positive impact; (○) no impact, (✗✗/✓✓) significant impact

As regards choices presented for **policy issue 1**, **option A2 is the preferred option** as it introduces a harmonised approach resulting in coherent rules, simplification for beneficiaries, fewer IT tools and documents. It would also present benefits regarding reduction of the administrative burden. The flexibility concerns for this option will be addressed by making the rules more general, with the possibility of specific derogations in particular for the European Institute of Innovation and Technology, given that the specific character of its actions and the typology of its beneficiaries require an appropriate level of flexibility.

As regards choices presented for **policy issue 2**, option B2 envisages a set of modifications and instruments suited to adequately addressing the current problems and to achieving the proposed objectives. Regarding the modification of the main funding model, although option B2b seems to offer the perspective of larger savings in administrative costs in financial terms, **option B2c is the preferred option**. This sub-option grants beneficiaries a high degree of

legal certainty, reinforces sound financial management and avoids risks of unforeseen administrative burdens and bottlenecks. It is also the preferred option expressed by most stakeholders.

From the above analysis **it appears clearly that the objectives of the initiative and expectations of stakeholders will be met in the most effective manner by a combination of options A2 and B2c**. This is fully in line with the principle of proportionality, as regards the choice of the legislative act as well as the content of the individual measures envisaged.

7. MONITORING AND EVALUATION

In order to implement Horizon 2020 successfully it is vital to put in place a comprehensive monitoring and evaluation system, with a focus on efficiency and effectiveness.

The system will be based on a harmonised strategy to ensure evaluation coverage of all of Horizon 2020 and define a detailed timetable for evaluation work. There will be, notably, a comprehensive Interim Evaluation in 2017 and a full-scale Ex-Post Evaluation in 2023.

Monitoring and evaluation will be based on a broad portfolio of analytical work to be carried out for all activities included in Horizon 2020. Common templates, methodologies and indicators will be adopted, as far as possible, so as to promote comparability and coherence, and to facilitate an aggregated overview. A key element in the monitoring and evaluation approach will be a data archive, integrating information on a broad range of activities with a specific focus on outputs and outcomes.

Transparency is a central aspect of an overall strategy for full accountability. The evaluation and monitoring system will in particular provide both annual Monitoring and Evaluation Reports. A dedicated evaluation and monitoring website will present all relevant material.