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on European Court of Auditors' Special Report 2/2013: 'Has the Commission ensured efficient implementation of the Seventh Framework Programme for Research?'

Committee on Budgetary Control

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United in diversity

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Introduction

The Seventh Framework Programme for research, technological development and demonstration activities (FP7) represents one of the Union's key instruments for funding research. Being one of the largest single research programmes in the world, it contributes to the completion of the European Research Area as a unified area that brings together researchers, scientific knowledge and technology. The programme contributes to the achievement of Europe 2020 goals in the area of research and innovation.

FP7 provides more than 50 billion euro for the period 2007-2013 in support of research-related activities, including basic and applied research, educational and innovation activities. Most of the funds are spent in the form of grants to final beneficiaries, both in the Member States and beyond the EU. Following competitive calls for proposals, the vast majority of the budget is spent by the Commission or its executive agencies, on the basis of grant agreements with beneficiaries, usually working as transnational consortia.

FP7 beneficiaries represent a wide range of organizations and individuals, such as universities and research institutes, researchers, small or medium-sized enterprises (SMEs), public or governmental administration, civil society organisations.

FP7 rules for participation must be both sufficiently flexible and precise so as to accommodate the combination of academic and industrial entities in individual projects. This is a necessity in terms of avoiding misinterpretations in cases where participants, within the same consortium, may be subject to different tax, legal, accounting or financial rules.

The implementation of FP7 is spread across six Directorates-General under centralised direct management¹, two executive agencies (Research Executive Agency (REA) and European Research Council Executive Agency (ERC EA), the European Investment Bank (EIB), Joint Technology Initiatives (JTIs) and dedicated implementation structures.

The rules for participation define the conditions for project selection, whereas the participation of entities and project financing, as well as the objectives and activities to be financed under FP7 are defined in Decision No 1982/2006/EC and the decisions on the four specific programmes. This framework is complemented by the implementing rules adopted by the Commission and non-binding guidance documents.

Compared to its predecessor FP7 has introduced a number of new instruments, being the more relevant the Support for Frontier Research,² the Joint Technology Initiatives (JTIs) and the Risk-Sharing Finance Facility (RSFF). The JTIs and RSFF were conceived to support close-to-the-market innovation activities with the aim to foster industry participation, which has steadily decreased since the Fourth Framework Programme.

¹ Under centralised management, the budget is implemented either directly by the Commission or indirectly by the agencies or other bodies to which the Commission has delegated its powers.

² Funded through the Ideas Specific Programme which is implemented by the European Research Council and its executive agency..

Audit Scope and Objectives

The Court's audit examined whether the Commission has ensured efficient implementation of FP7. The following three sub-questions were utilized to pursue this goal:

- (a) Have the rules for participation allowed efficient implementation of FP7?
- (b) Has the Commission succeeded in streamlining the FP7 processes without compromising the quality of spending?
- (c) Did the Commission manage well the setting-up of new instruments?

The audit covered the rules for participation, the Commission processes and the setting-up of two new instruments – JTIs and the RSFF on the implementation of FP7 between 2007 and the first half of 2012.

In addition the Court carried out a follow-up to its previous recommendations from Special Report No 1/2004 on the management of indirect RTD actions under the Fifth Framework Programme for research and technological development (1998 to 2002).

The Court's Findings

The principal findings of the audit are:

In general the Commission has taken a number of steps to simplify the rules for participation but more needs to be done. The introduction of flat rates is an example of good practice, though actual costs remained the main funding model in FP7.

The Commission has been able to align FP7 provisions with beneficiaries' practices in some cases (for example in terms of accepting average personnel costs) but further improvement is needed as FP7 beneficiaries continue to be faced with inconsistencies related to the rules for participation. In addition, the European Parliament¹ and the Commission itself have recently underlined the need to make FP7 rules more compatible with general business practices.

The certification mechanism² established by the Commission at the beginning of FP7 received applications for certification of methodologies from 71 beneficiaries whereas the Commission has estimated that a maximum of 350 certificates would be issued. The Court noted that the major reasons for not applying for ex-ante certification are the length and complexity of the application process, the difficulty of meeting the certification criteria and the limited use of the certificate. Overall, low participation levels undermined the Commission's efforts to simplify procedures.

¹ In April 2009, the European Parliament pointed out that beneficiaries should be allowed to use their average cost methodologies and asked the Commission to start a procedure, making 7th Framework Programme rules compatible with general business practices that allow for calculation and charging of average hourly rates per cost centre.

² Certification mechanism approves ex-ante the cost methodologies to give assurance to beneficiaries on their methodologies.

The Commission's management of FP7 is strong in three areas: process design, improvement activities and management information, but needs improvements in tools and resources. FP7 processes are geared towards ensuring that funding is invested in high quality research but with little focus on efficiency.

The front-office IT tools have been improved and synchronized but the corresponding back-office tools have not been harmonised to the same extent. For example, the different tools used for grant management have been developed as largely independent modules, without considering how they interlink with each other. Additionally, the maintenance and development of such parallel tools with common purposes raises concerns on the efficient and effective use of resources.

The time-to-grant¹ for all successfully negotiated projects has been on average 333 calendar days. Over the course of FP7 there has been a clear trend towards shortening this period. The Commission has started to address some of the issues during the course of FP7. Still, some persist, such as poor communication between the officials responsible for project negotiation or generous deadlines for the submission of information.

Regarding the time-to-pay the Court concluded that on average, more than 85 % of payments related to research grants are made within the time limit of 90 calendar days for interim and final payments, but there are still considerable discrepancies between the different Directorates.

Some aspects of FP7 implementation are affected by lack of coherence. The implementation of FP7 should ensure mutual synergies and complementarity with EU policies and programmes. The Court's comparison between rules and procedures revealed practices that led to differences in treatment of essentially the same situation by different services. While coherence in implementation reduces the administrative burden placed on beneficiaries, the tools put in place to achieve this were not always effective. The Court's analysis identified nine examples of divergent rules and procedures which were not discussed in the Research Clearing Committee (RCC)² and noted that a Single Clearing House³ has not been established.

The FP7 financial control model is not sufficiently related to the risk of errors and therefore low-risk FP7 participants are subject to too many controls. In order to decrease beneficiaries' burden in providing evidence before payments are made, the Commission has taken a decision to move away from detailed ex-ante financial controls⁴ and place greater reliance on ex-post controls. Whereas the ex-ante controls are often limited to an administrative review of the cost claims and related deliverables, most of the significant errors are detected by the ex-post controls.

¹ Time to grant is the length of time required to successfully negotiate a contract.

² The Research Clearing Committee is set up between the directorates-general responsible for the implementation of indirect actions under FP7. The RCC has the mandate to take final positions on horizontal matters related to the implementation on which the services did not reach consensus

³ The purpose of the Single Clearing House was to guarantee that the interpretation, in particular of the legal and financial provisions of the contracts, given out to beneficiaries by the Commission is consistent and uniform.

⁴ The objective of the financial controls is to verify whether FP7 transactions comply with the eligibility requirements and that costs incurred are directly related to the objective of the project.

In the framework of FP7 JTI have been set up to support long-term industrial investment in particular research areas. However, it has taken on average two years to grant financial autonomy to a JTI with the Commission usually remaining responsible for one third of the expected operational lifetime of the JTIs. Nevertheless, some JTIs have been particularly successful in getting SMEs involved in their projects and nearly 21 % of funding provided by the JTIs has gone to SMEs.

The RSFF's main objective was to foster private sector investment across Europe in research, technological development and demonstration, as well as innovation. Under this new instrument the loan amount of signed projects reached 7.3 billion euro and disbursements were almost 5 billion euro. This has led, according to DG Research and Innovation, to a leverage effect of the EU contribution of 6.6 (each euro of EU contribution has led to more than six euro of the RSFF loan finance).

Summary of the Commission's Replies

The Commission has aligned FP7 provisions with beneficiaries' practices whenever possible in accordance with the other eligibility criteria, in particular in the case of average personnel costs. However, in most of the cases further alignment is not possible since beneficiaries' general accounting practices are not in line with the other eligibility criteria set by the legislator.

Concerning the funding models, the Commission shares the analysis made by the Court of Auditors and proposes far-reaching simplification under Horizon 2020, especially a single reimbursement rate per project and a mandatory single flat rate for the calculation of indirect costs.

The Commission recognizes the overall disappointing experience with ex-ante certification of cost methodologies also within the context of FP7 and plans to take this into account in the preparation of the rules for the next funding period.

The IT tools for management of the framework programmes have substantially evolved and improved since the 2004 Court audit on FP5. The full integration of modules has not yet been achieved but this is foreseen in Horizon 2020 when an integrated IT system will be put in place.

The time-to-grant has converged among Commission services implementing FP7. It has already been reduced to a level close to the goal set in the new Financial Regulation and will amount to 270 days for contracts resulting from future calls.

The Commission sees certain room for improvement in terms of reducing time-to-pay by means of proper feedback to beneficiaries and utilization of IT tools.

Since the beginning of FP7 the Commission has been committed to ensuring good coordination between the different Commission services. In this regard, the Commission has set up a range of mechanisms for identifying and resolving cases of incoherent treatment by different Commission services, including the Research Enquiry Service, inter-service groups,

and the Research Clearing Committee. The Research Enquiry Service is considered to be the Single Clearing House.

Given the legal framework available for the JTIs, the Commission has insisted on very high levels of financial security in the establishment of these bodies which are relatively independent but spend a large amount of public money. The Commission plans to introduce PPP-specific financial rules, including the possible establishment of common services/functions for JTIs.

The Commission highlights the achieved results in the implementation of RSFF - the leverage and multiplier effect. RSFF lending remains related to the private investments in R&D and innovation activities, which is the reason for a certain geographical concentration of the implementation of the instrument.

Draftswoman's recommendations for possible inclusion in the annual discharge report:

Welcomes the Court's special report "Has the Commission ensured efficient implementation of the Seventh Framework Programme for Research?" and makes the following comments in relation to its recommendations:

Simplification:

1. Agrees with the overall evaluation of the Court of Auditors that *"the Commission has taken a number of steps to simplify the rules for participation"* by introducing a number of administrative and financial simplifications to FP7 rules for participation, which reduce the administrative burden on beneficiaries and facilitate their access to the programme. However, the periods could be further shortened based on improved internal communication, sharing of best practices among DGs, as well as the timely introduction of effective new IT tools;
2. Welcomes the increased application of flat rates on direct and indirect costs, including the introduction of average personnel costs; at the same time highlights the need for continued efforts towards standardization of reimbursement practices;
3. Expresses its concerns on the unsuccessful effort to establish a certification mechanism for the approval of cost methodologies that would give assurance to the beneficiaries on their methodologies. Considers that the wide-spread implementation of flat rate on indirect costs in Horizon 2020 will further contribute to preventing possible financial abuses and decreasing the error rates, thereby benefiting SMEs and making the participation of potential beneficiaries from the new EU-12 Member States easier;
4. Agrees with the Court that the Commission has introduced effective new front-office IT tools which have substantially improved the interaction with beneficiaries, led to less administrative burden for both sides and helped to avoid the risk of potential duplication of funding. However, a substantial challenge remains, i.e. the optimization of back-office IT tools which is to ensure further reduction of the administrative burden and to guarantee an effective interlink between the modules used by the different DGs. Embraces the work on the common back-office IT tool (SYGMA) and the common electronic workflow tool (Compass) which has started well in advance and should ensure

that these will be available for Horizon 2020;

Financial control:

5. Underlines the necessity to strike the right balance between less administrative burden and effective financial control. Notes that due to the specifics of the research field a risk-tolerant and science-based approach should be encouraged so as to achieve research excellence and better impact of projects. This approach will allow the Commission to uphold the balance between trust and control;
6. Encourages the Commission to follow the Court's recommendation to concentrate the ex-ante checks on riskier beneficiaries, thereby introducing the beneficiary risk profile, based on results from the *ex post* controls and performance record;

Efficiency and Effectiveness:

7. Considers it necessary to put more emphasis on effectiveness, which is crucial for ensuring high-quality research in Europe, without underestimating the optimization of administrative and financial practices and procedures, which is essential for achieving efficient implementation of FP7. The realisation of a European Research Area is a key element for the long-term economic prosperity and competitiveness of the EU and is interlinked with the achievement of the established objectives and expected results from FP7. In this regard, welcomes the introduction of performance indicators in Horizon 2020, which will measure programme implementation in terms of outputs, results and specific impacts, at the same time bearing in mind the programme objectives;
8. Encourages channelling of research output into initiatives with a tangible beneficial impact on citizens' daily life, for example such that feed into the concept of smart cities, and prevent the generation of research for the sake of research. A potential area for innovation and development of technological and industrial base is security and defence. Therefore, encourages the further advancement of research activities in this field, with a view to exploiting possibilities for dual-use technologies and know-how transfer to the civilian sector, so as to better address societal challenges;
9. Acknowledging the persistent gap between research outputs and successful product realization on the market, urges the Commission to further promote the "research-innovation-market" link to boost the relative economic competitiveness of Europe on a global scale;
10. Notes that the EU should identify its competitive advantage in cutting-edge areas of research and should work for encouraging young researchers to develop world-class research in Europe. The introduction of a uniform and comprehensive definition for innovation would facilitate the application process and boost the attractiveness of the program for beneficiaries, especially SMEs with limited administrative capacities;

New instruments

11. Welcomes the implementation of new forms of venture capital instruments for public private partnerships under FP 7 - JTIs and RSFF, as well as the results these instruments have achieved in ensuring funding for long-term industrial investments and fostering private investments in research;
12. Acknowledges that some JTIs have been particularly successful in involving SMEs in their projects with an average of 21% of the total available funding provided by the JTIs to SMEs; notes that the functioning of the JTIs was affected by the overly complex legal framework and the prohibited implementation of common services which resulted in an average of 52 % of their staff devoted to administrative tasks;
13. Considers that the more cautious approach undertaken by the Commission in the first years of RSFF implementation was reasonable and in accordance with the economic conditions in Europe. However, recommends that it should be established beyond doubt that the instrument is used as an efficient tool for riskier research projects which would otherwise not be supported by commercial banks but could lead to major innovation breakthroughs. A step in the right direction is the establishment of the Risk Sharing Instrument (RSI), which complements the existing RSFF, thus ensuring the participation of research-based SMEs;

Synergy:

14. Notes that further efforts are needed to enable the Commission to effectively identify diverging practices in project implementation and to ensure that all beneficiaries are treated in a consistent and uniform manner by the different Commission DGs and other implementing entities in order to ease their administrative burden; Notes the need to ensure that the already existing Research Enquiry Service and Research Clearing Committee fulfil the tasks of the initially envisaged Single Clearing House;
15. Understanding the complexity of promoting more synergy between FP7 and the Structural Funds (SF), believes that the Commission could intensify its communication with the Member States by presenting certain good practices in order to ensure that the SF are efficiently used to facilitate both the up-stream (project preparation, capacity building) and the down-stream (full-scale demonstration, market realization) synergy approach. Thus, the regional dimension of R&I could be enhanced by encouraging the innovation-research-education (the so called:"triangle of knowledge") and the creation of pockets of excellence and regional clusters, thereby expanding the FP 7 geographic scope with a view to the efficient and effective distribution of projects among all Member States. Recognises the need for more coordination of SF allocations for development of research infrastructure and the subsequent financing of research activities under the framework programmes.