

EARTO Inputs to ESIF Simplification

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The 350 Research and Technology Organisations (RTOs) members of EARTO play an important role in the innovation ecosystem with a yearly €29,3bn turnover and €14bn value-added¹, covering public and private sectors, addressing all societal challenges and supporting major industry as well as SMEs². RTOs are actively supporting regions to design and implement their RIS3 among others with the use of the European Investment and Structural Funds (ESIF). RTOs under ESIF funds can be working as direct beneficiaries as well as intermediaries. As such **representing part of the regional Research & Innovation actors, EARTO considers the current efforts of DG REGIO in terms of ESIF simplification key for the implementation of the RIS3 strategies that have been defined by regions in the last two years. Simplification efforts will go hand in hand with ensuring that the RIS3 strategies will be effectively supported by Research & Innovation (R&I) actors including European RTOs.**

In that context, ESIF simplification should mean easier and faster access to ESIF while understanding the requirements of transparency in the delivery of EU funds. Such simplification efforts should aim at supporting the implementation of RIS3 strategies by regions. To do so, regions will need to have the full support of their R&I actors among which RTOs. RTOs bring to regions their industrial and mission-oriented research, innovation and technology transfer capabilities. As well as their key connections to their industrial clients, RTOs also have close collaboration with universities (staff exchange, shared labs, industrial PhDs) and science parks (on which they are very often located).

Today, RTOs are facing various challenges when accessing ESIF:

- **Access:** In some countries, RTOs are not able to access regional funds directly.
- **Speed:** RTOs often remark that the time required to access such funds is too long compared to the speed requirements of the collaboration they are in with industrial clients.
- **Rules engendering complexity and legal uncertainty:** Rules and regulations of such funds often conflict with RTOs' operational models. This can result in the need to set up complex financial and legal arrangements so that an ESIF programme can benefit from RTOs involvement without concerned RTOs being direct participants in the ESIF project. There are many such examples of this, which detracts from the efficiency and effectiveness of ESIF project delivery. There are a significant number of RTOs who do not take part in ESIF projects because of the complexity, legal uncertainty attached to the participation in such funded projects and poor funding rates available to RTOs.

These factors limit the support RTOs can give to ESIF projects, where their skills and resources are highly relevant.

ESIF simplification should address both the operation of the funding for all players, and specific measures to address the particular issues faced by RTOs:

- 1. Simplification efforts should look at the restrictions for all players that prevent the implementation of RIS3 strategies overall or lead to unnecessarily extended timescales.**
- 2. Simplification should aim at improved access to the ESIF for national and regional R&I organisations such as RTOs, to allow them to effectively and simply/rapidly support RIS3 implementation. This is key as synergies between EU funds will be delivered by the R&I organisations operating at the regional level and not by forcing the various EU programmes to artificially link themselves³.**

The various EU programmes have clear targets and global framework/conditions. Whereas these programmes should have the framework/conditions that allow the synergies to be realised, these synergies should be managed by individual organisations at the regional level. (i.e. the conditions should not restrict such programme synergies). We strongly believe that European RTOs are key in delivering EU funds synergies in practice at regional level as they are key components of regional innovation ecosystems and industrial value-chains: RTOs are active at regional, national and EU level using ESIF, Horizon2020 as well as now looking at possibilities under EFSI⁴, for some of them having used already EIF instruments.

¹ [EARTO Economic Footprint of 9 RTOs in 2014](#)

² [JRC Policy Brief "RTOs and Smart Specialisation"](#)

³ [EARTO-ERRIN Paper on Synergies ESIF-H2020](#)

⁴ EARTO EIB InnovFin Advisory Services on-going to this effect.

In this context, EARTO, supported by its Working Group on Structural Funds, would like to offer an overview of the challenges of the ESIF funds that have been identified by its members. **The table below summarizes the improvements needed by ESIF: what could be changed already on the current programmes and what would need to be looked at in the next programming period both at EU and regional levels as the ESIF is managed at both levels.**

How to read this table:

- **Yellow** shaded items apply to all organisations,
- **Green** shaded items apply specifically to RTOs,
- More detailed explanatory notes are given after the table.

	EU Level		Regional Level	
	Current funding period	Next funding period	Current funding period	Next funding period
Finance	Simplification of justification for indirect costs. See note 1	Use intervention rates rather than Article 55 Gap funding for revenue costs. See note 2	Allow 100% funding for activities where the RTO is not an end beneficiary – such as technology transfer to SMEs. See note 3	Have a consistent, reasonable application of “apportionment” between Member States and regions which recognises RTOs’ roles act across regional and national boundaries. See note 4
Administration			Value for money – minimum of three quotes: set a minimum amount below which this is not necessary and set types of purchases such as hotel accommodation where this is not applied. See note 5	Eliminate inconsistencies between different Member States and regions. See note 6
Audit	Simplify audit process. Apply proportionality. See note 7	Change underlying philosophy from assumed guilt and 100% audit to assumed innocence and sample audit. Reduce audits for organisations with regular rule-conforming audit results. See note 8	Reduce the levels and duplication of audit. Allow re-use of information for different levels of audit. Reduce “gold-plating” when regional audits exceed what is required from Brussels. See note 9	
State aid		Exempt ESIF funding from being considered State Aid, as is the case for Framework funding. See note 10		
Additionality		Recognise the unique position of RTOs and allow them to claim a fair proportion of their organisational overhead costs. See note 11		
Eligibility			Avoid restrictions on RTOs to receive ESIF funding. See note 12	

Note 1:

The use of simplified costing for indirect costs is currently being introduced on a trial basis. This procedure, where a flat rate of 25% of direct costs is applied, is congruent with current H2020 practice and should be used more widely.

Note 2:

The current use of "Gap Funding" penalises both success and failure in a project. A fairer method of funding, which will encourage more ambitious delivery, is to use an intervention rate (which is how the offer letter is usually written) with a profit over-ride as in H2020.

Note 3:

RTOs are often involved in projects where they are not a beneficiary. An example of this is where they are supporting SMEs with the introduction of new technology. In most situations, RTOs require full coverage of their costs. Experience has shown that matching ESIF funding with cash from SME beneficiaries is not realistic, and severely limits the SMEs who will take part in such programmes. This is not to say that the SME does not contribute, as they have to contribute significant time and materials for such interventions to be effective. National matching funds are available in some circumstances, but where they are available, co-ordination with ESIF funding is challenging. Allowing funding at up to 100% for RTOs delivering projects where they are not a beneficiary will allow such projects to be proposed, structured and delivered much more widely and effectively. As the RTO is not a beneficiary, there are no State implications for them from high intervention rates. Neither is there State Aid implications for the recipient SME as these projects are usually delivered to them under De Minimis. If it is necessary for a particular region to keep below a maximum overall intervention rate for its total programme, the use of high intervention levels for funding such programmes could be compensated for by other projects taking a lower intervention rate. The justification for the proposed higher funding rates is that this type of technology transfer intervention does deliver a disproportionately high benefit to the region.

Note 4:

RTOs work across regional, national and international boundaries. Restricting their aid to industry within a particular region can be challenging, for example, when running a publicly advertised outreach event where attendance is requested from companies outside of the region. In such cases, apportionment of the funding should only be applied if there is a reduction in benefit to the region or if there is no benefit to an organisation with its operational base in Europe.

Note 5:

The need for a minimum of three quotes is disproportionate when applied to all project expenditure. There should be minimum level of expenditure below which there is not a requirement to get quotes. It should be remembered that the recipient organisation will also be contributing to this expenditure, and their internal procedures should be relied on for low level costs.

Note 6:

Standard rules should be applied across all regions. There is currently significant variation in the application of EU rules by both Member States and regions within those States. To achieve this, more guidance is needed from the EC in the form a more detailed set of rules.

Note 7, 8 & 9:

The depth of audit and the number of audits should be proportionate to the perceived risk for individual projects, eg where organisations have robust systems with a good track record of compliance, the number and level of audit should be reduced. Additionally, the audit information should be shared between subsequent audits to avoid duplication of effort for beneficiary and the public body.

Note 10:

Central funding of ESIF for multiregional RTO will result in more flexible and ambitious projects with greater impacts, and will also remove State Aid issues. If these are competitively bid projects, there will be better value for money.

Note 11:

RTOs often operate on a "not for profit" basis. Many have no core funding from their regional or national governments, and where they do it is often for specific programmes or projects. With neither core funding nor profit to cover organisational overheads, RTOs need to allocate a fair proportion of their organisational overheads to each project they undertake. This unique position of RTOs means that they are severely restricted in using ESIF funding to carry out projects using existing staff and infra-structure.

Note 12:

The restriction on RTOs from accessing ESIF funding in some regions is incongruous and rules out key innovation organisations from supporting growth in their region. It reduces the benefit and effectiveness of the delivery of ESIF programmes to the region. Although this is a regulation at the national or regional level, a condition of approval of the Operational Programme for a region should be that RTOs are not discriminated against. In addition to the urgent improvements mentioned above, we also propose further possibilities for using ESIF for leverage innovation.

One option would be to allocate a budget in the next funding period for supporting highly ranked innovation project results to go one step further to industrialisation (“bridging the gap”). Rules and regulations will have to be set up to allow for a compliant process, like a joint evaluation of the elaborated research & innovation results by DG REGIO and DG RTD, realisation of the industrialisation in two or three European regions and in two or three industry sectors to avoid conflicts with competition rules. A second possibility would be to use public procurement in “standard” ESIF infrastructure projects by motivating with appropriate measures the inclusion of innovative solutions provided by innovative industrial companies or RTOs.

By their very nature, RTOs are experienced in running publicly funded projects. They play an important role in catalysing regional innovation but often act beyond regional and national boundaries and thus stimulate also inter-regional cooperation. They have robust financial systems, which makes them relevant actors to offer their expertise on the access to finance in the EU R&I landscape. **As such, RTOs should be recognised as a unique group of organisations which will need rules adapted to their business model if their knowledge and resources are to be fully exploited to the benefit of regional development & the implementation of RIS3 strategies with the support of ESIF funds.**

This document will hopefully serve as basis for further dialogue with the EU institutions during the ESIF Simplification process and preparation for the next funding period. EARTO is looking forward to further supporting the implementation of an impactful Cohesion Policy.

***EARTO** is a non-profit international association established in Brussels, where it maintains a permanent secretariat. The Association represents the interests of about 350 Research and Technology Organisations (RTOs) from across the European Union and “FP-associated” countries.*

***EARTO Vision:** a European research and innovation system without borders in which RTOs occupy nodal positions and possess the necessary resources and independence to make a major contribution to a competitive European economy and high quality of life through beneficial cooperation with all stakeholders.*

***EARTO Mission:** to promote and defend the interests of RTOs in Europe by reinforcing their profile and position as a key player in the minds of EU decision-makers and by seeking to ensure that European R&D and innovation programmes are best attuned to their interests; to provide added-value services to EARTO members to help them to improve their operational practices and business performance as well as to provide them with information and advice to help them make the best use of European R&D and innovation programme funding opportunities.*

***EARTO Working Group Structural Funds:** is composed of 30 experts working within our membership. Established in March 2014, this Working Group has worked on ESIF Regulations, Smart Specialisation Strategies and synergies between ESIF and other EU funds. Our experts contributed to the JRC Policy Brief on RTOs and Smart Specialisation.*

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