

Presentation to CONT Hearing

***“Efficiency and Effectiveness of the 7th Research
Framework Programme:
Implementation and Control Systems, and Proposals for Reform”***

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EARTO



Brief Words about EARTO and RTOs

EARTO represents 350 RTOs

- mission-oriented research organisations
- generally government sponsored, government sanctioned – sometimes, but rarely, government-owned
- 150,000 employees, €15 billion annual turnover
- Some of our larger members: VTT, SINTEF, Swedish industrial institutes, Teknologisk, TNO, VITO, Fraunhofer, Technology Partners, Bay Zoltan, Instituts CARNOT, FEDIT Technological Centres...
- Major players in Framework programme
 - e.g. Fraunhofer 2nd largest single player in FP6: >500 project participations,
 - e.g. 5 largest RTOs above: >1,400 project participations, >€520 million EU funding



Promised Simplifications in FP7

Did they Achieve their Goal?

Several improvements in FP administration

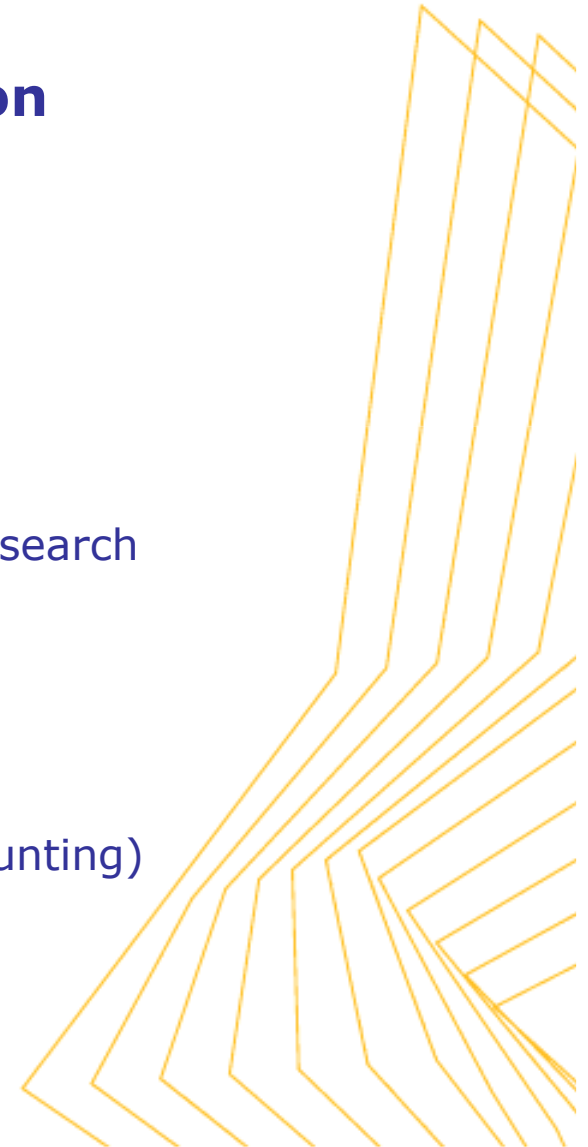
- Single Registration Facility
- New electronic administrative tools
- Reduced requirements for audit certificates

Guarantee Fund

- Useful in removing the need for bank guarantees
- But has not facilitated smaller companies or smaller research organisations as project coordinators

Flat rates, lump sums

- Simplification for Commission
- Complication for most players (who use real-cost accounting)



Implementation problems in FP7 - I

Methodology certification

- Average personnel costs, overall financial reporting
- Average personnel cost certification in its present form an almost complete failure
 - Criteria too restrictive (notably 25% deviation criterion)
 - Does not correspond to common practice in industry (cost centre averaging)
 - Does not correspond to common practice in research organisations
 - Probably many universities using full cost will find themselves disqualified
- In March, only three certificates had been issued by the Commission

SME projects (Research Executive Agency)

- Non-recognition of SME Associations in "Research for SME Associations"
- Project negotiation: unjustified demands for budget cuts, rejection of agreed prices between SMEs and research performers
- Refusal of use of escrow/trust bank accounts



Implementation Problems in FP7 - II

JTIs

- Unattractive overhead reimbursement rate (20%) in some JTIs
- One-sided IPR-handling rules in some JTIs, e.g. IMI
- Problems linked to national funding for ARTEMIS and ENIAC

Implementation Problems reduce Attractiveness of FP7



Climate of Mistrust

Ex-post FP6 audits

- Retrospective, unilateral redefinition of eligible costs by Commission
- Commission led contractors into wrongdoing by systematically accepting cost claims over many projects and years

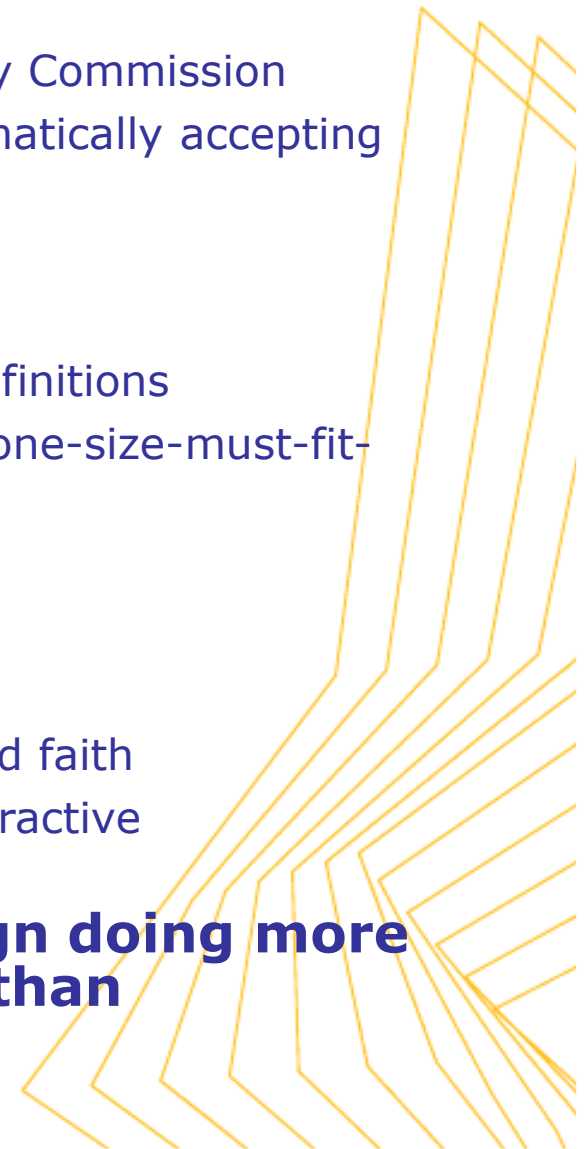
Background to climate of mistrust

- Rules of Participation: principles rather than precise definitions
- Auditing Approach of the ECA: materiality threshold, “one-size-must-fit-all” definitions
- Divergent interpretations of rules of participation

Consequences

- No distinction between fraud and “errors” made in good faith
- Rules unpredictable , lack of legal certainty, FP less attractive

**Commission’s ex-post FP6 Audit Campaign doing more
Damage to EU Research Policy than
Good to the EU Budget**



Proposals for the Future

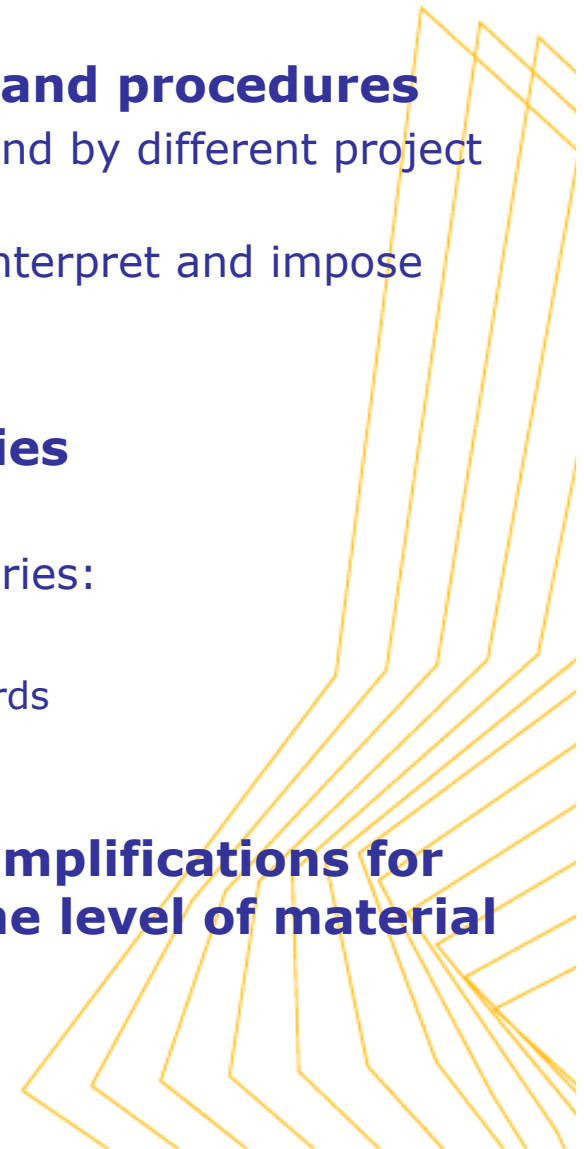
Uniform interpretation and application of rules and procedures

- Different interpretations of the rules across DGs, units and by different project officers
- Solution: High-level inter-service coordinating body to interpret and impose rules

Accept usual accounting practices of beneficiaries

- *de facto* differences in accounting practices
- EC should accept usual accounting practices of beneficiaries:
 - Average personnel costs, indirect costs
 - in compliance with national accounting and auditing standards
 - EC might set minimum standards

These would be the single most significant simplifications for beneficiaries and would considerably reduce the level of material errors



Proposals for the future - II

Proceed from real economic cost of research

- FP is an incentive programme
- Different organisations have different business models, different management practices, different needs
- “one-size-fits-all” will not work

Results-based vs cost-based funding?

- Appears highly attractive
- But would it get full unequivocal support from the ECA and Parliament?
 - If not, would create still more problems



Final Recommendations

The Past

- Stop trying to fix the past (cf. EP 2007 and 2008 budget discharge reports)
- Draw a line under FP6
- Make a distinction between fraud/negligent management and “errors” made in good faith

The Present

- Perform real-time audits in FP7, following a single audit approach
- Need to find cross-institutional and cross-DG agreement on interpretation of the rules

The Future

- Clear, uniformly agreed rules (definitions, control framework) for FP8
- Associate stakeholders to ensure future rules and definitions that correspond to real-world practice

All EU institutions must agree on what they have agreed, otherwise they will have agreed nothing!