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Presidency paper

Informal Competitiveness Council meeting in Copenhagen

Thursday 2 February 2012

Europe's capacity to create growth and new jobs and our overall future standard of living depends on the ability to drive innovation in products, services, businesses and organisations. Success in achieving the goals of the Europe 2020 strategy and the flagship initiatives will to a great extent be determined by decisions made at local, regional and national as well as European level.

The Danish Presidency will do its utmost to progress the negotiations on Horizon 2020 and has set the ambitious goal to reach a partial general approach on the overall structure of Horizon 2020 at the Competitiveness Council on 30 – 31 May 2012. A precondition for this is to ensure an early political debate on Horizon 2020 involving stakeholders and the European Parliament.

Whereas the Ministerial Conference on 1 February 2012 is dedicated to political discussions between European research ministers and key global and European stakeholders, the informal Competitiveness Council meeting on 2 February 2012 will focus on the three most important recurring concerns appearing from the discussions on Horizon 2020. In connection with the presentation of Horizon 2020 at the Competitiveness Council meeting on 6 December 2012 the question of complementarities with other EU programmes and in particular Cohesion Policy funds, simplification, and the importance of bridging research and innovation was pinpointed.

There is a broad consensus that Horizon 2020 needs to contribute to the creation of stairways to excellence, while maintaining its focus on excellence. In this connection adequate coordination between research and innovation policy with other related policy areas needs to be ensured, especially with the cohesion policy. While research policy should continue to focus on supporting excellence, mutual learning and EU-wide cooperation of researchers and enterprises, regional policies should focus on ensuring that all regions put strategies in place to build stairways to excellence and are capable of absorbing and putting to effective use research and innovation maximising the Unions knowledge-based potential. The Structural funds already provided substantial investments in research and innovation. Some 86 billion euro has been programmed for the current financing period (2007-2013) and the Commission and the Council have encouraged regions to focus on a smart specialisation approach and focus on relative strengths in the strive for excellence.



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The strong consensus on the need for more simplification in relation to EU research and innovation funding has to be transformed into concrete action. There is a clear political wish for a radical change in relation to simplifying the rules for participation in order to attract the best researchers and innovators to engage in EU-collaboration. Many initiatives in this direction have already been taken by the Commission and there is strong support from Council and the European Parliament to push simplification as far as possible in Horizon 2020.

Finally, there is the important question of how to ensure a strong link between research and innovation. Horizon 2020 presents a new approach to research and innovation funding entailing a closer connection between research and innovation activities, as well as stimulating partnerships across sectors, disciplines and regions. An important question is whether the new approach to funding will deliver in terms of turning more ideas generated by excellent research into products and services.

The Danish Presidency has therefore planned the following three workshops:

- **Complementarities with other EU programmes**
The discussion will focus on how to ensure synergies especially at national level with the structural funds, as well as with other EU programmes such as the Programme for the Competitiveness of Enterprises and SMEs (COSME).
- **Simplification and the way forward**
Many initiatives have already been taken in FP7 and Horizon 2020 proposes in particular a shift towards a single set of rules approach minimizing the need for ex post control. Based on a state of play in relation to simplification the discussion will focus on whether the proposed changes are pointing in the right direction.
- **Bridging the valley of death**
The discussion will focus on whether Horizon 2020 will deliver in relation to creating a strong link between research and innovation. The question of the participation of SMEs will be raised in this connection.

At the Competitiveness Council meeting on 21 February 2012 the Presidency will report back on the discussions and conclusions. In March or April 2012 there will be an informal policy seminar on Horizon 2020 in the European Parliament organised jointly between the Danish Presidency, the European Parliament and with Commission participation. The last discussion during the Danish Presidency on Horizon 2020 will take place at the Competitiveness Council meeting on 30 – 31 May 2012, hopefully with a partial general approach as the end result.



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Workshop 1: Complementarities with other EU programmes

Horizon 2020 is proposed alongside other EU programmes to promote smart and inclusive growth, notably the Cohesion Policy funds and the programme for the competitiveness of enterprises and SMEs (COSME). In the context of the urgent need to boost European competitiveness and growth, these programmes will need to be mutually reinforcing, while avoiding duplication.

Some regions in Europe are less research and innovation intensive and thus have difficulties exploiting the opportunities in the present framework programme for research and innovation. Horizon 2020 focuses on supporting excellent research and innovation, transnational cooperation and mobility. This focus on excellence is complemented by the cohesion policy which aims to ensure that regions provide stairways to excellence for their researchers and institutions, and are fully equipped to exploit and further develop the local knowledge based potential. Both policies have the ultimate aim of improving European competitiveness and hereby contributing to Europe's Growth Strategy.

The Commission put forward its proposal for the cohesion policy in October 2011. The proposed Regulation on a European Regional Development Fund identifies research and innovation as an investment priority and the need for this investment to be conditional on smart specialisation strategies. In addition, the proposed Regulation on European Territorial cooperation includes fostering cooperation between innovative research-intensive clusters and exchanges between researchers and research institutions in Europe.

In Horizon 2020, the challenge 'inclusive, innovative and secure societies' includes a component on closing the research and innovation divide in Europe, supporting for instance twinning, access to international networks and support in developing effective R&I policies. Other measures in Horizon 2020, in particular those on simplification, innovation, SMEs, mobility, and research infrastructures, should also foster wider participation in Horizon 2020.

The Commission has proposed a Programme for the Competitiveness of Enterprises and SMEs (COSME). This programme should work alongside Horizon 2020, in particular in providing financial instruments to support the growth of enterprises, and in providing simple access for SMEs to EU funding. Horizon 2020 is also expected to complement other programmes proposed under the Multiannual Financial Framework (2014-20), including the Common Agriculture Policy (notably through the Horizon 2020 challenge relating



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to food security and sustainable agriculture) and the Erasmus for All programme (in particular through the Marie Curie actions and the European Institute of Innovation and Technology).

Questions for discussion

- Are further steps needed to improve the synergies with other EU programmes, including the Cohesion Policy and other sectoral policies and programmes?
- Given the urgent need to boost competitiveness, how can the complementarities between Horizon 2020 and the COSME programme be best assured in a participant friendly way?



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Workshop 2: Simplification and the way forward

Europe must be able to attract the most excellent researchers and the most innovative European enterprises. This can only be ensured by an attractive framework programme with the least possible administrative burden for participants and appropriate funding conditions. A lot has been done in FP7 in order to simplify the framework programme. With Horizon 2020 the Commission has proposed a framework programme that goes several steps further and has suggested:

- 1) One single set of rules: The rules for participation shall apply to the entire innovation cycle and the whole range of programmes and funding bodies (EIT, CIP, FP, JTI), ensuring coherence and harmonisation. At the same time the possibility for flexibility is ensured by allowing appropriate derogations and by setting out specific participation details in the work programmes.
- 2) One project – one funding rate: There shall be one single reimbursement rate for all participants instead of the three different rates in FP7. This should remove the uncertainty experienced by the users with regard to which reimbursement rate they are entitled to and one funding rate makes the project administration simpler as the registration procedures for the users will be significantly lessened, hence reducing the risk of errors.
- 3) One single flat rate: There shall be one single flat rate covering the indirect costs instead of the four methods in FP7 (Indirect eligible costs shall be determined by applying a flat rate of 20 % of the total direct eligible costs.). This removes a source of complexity and thereby the risk of financial errors and reduces the scope of a possible ex-post audit.

The suggestions from the Commission support the proposed revised control strategy focusing on achieving a new balance between trust and control and between risk taking and risk avoidance.

For a full overview of simplification measures in FP7 and proposals for simplification in Horizon 2020 please see annex I “Fiche de simplification”.



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Questions for discussion

- Horizon 2020 represents a major shift in relation to simplification with a range of initiatives. Based on the proposals (see annex I) are the new measures in Horizon 2020 adequate to ensure the needed radical simplification?
- Which steps could be taken to meet the need for having the flexibility to deviate from the rules within the different parts of the programme, in particular the externalised actions (art. 185, art. 187 etc.), without creating a new set of diverging rules across Horizon 2020?



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Workshop 3: Innovation and bridging the valley of death

Innovation is key to strengthening Europe's competitive position and essential when addressing global challenges. New incentives and enhanced collaboration between the small and large businesses, universities and research institutions are needed to capitalize on investments in education and research. Europe has a number of structural challenges when it comes to innovation capacity. Among others can be mentioned a culture of risk avoidance, the lack of venture capital, a low level of entrepreneurial activity and barriers within the knowledge triangle.

The Europe 2020 strategy and the flagship initiative Innovation Union stress the need for a new strategic approach to innovation – thereby taking the first steps to build the bridge. The term “Valley of Death” pictures the period of transition when a developing technology is deemed promising, but too new to validate its commercial potential and thereby attract the capital necessary for its continued development.

Horizon 2020 is responding to these challenges by turning its focus towards creating more innovation related initiatives. A more comprehensive approach is proposed where the broad concept of innovation is a central building block in all parts of Horizon 2020.

Focus on the integration of all aspects in the knowledge triangle; education and entrepreneurship, research and innovation is reflected in the European Institute of Innovation and Technology (EIT). Horizon 2020 proposes a strengthening of the EIT targeted the existing and new knowledge and innovation communities (KICs).

The instrument “Access to risk finance” and a new debt and equity facility are proposed to ensure sufficient funding for research intensive SMEs and other types of innovative enterprises and projects. Furthermore, Horizon 2020 entails several simplification measures that reduces the administrative burden of participation. A broader approach to innovation and less specific calls are also suggested.

There are around 23 million SMEs in Europe. They constitute just over 98 % of the European enterprises and over two thirds of private sector employment¹. SMEs are thus crucial for the creation of growth and

¹ http://ec.europa.eu/enterprise/policies/sme/what-eu-does-for-smes_en.htm



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employment in Europe, as well as for generating innovation that will increase industrial leadership in Europe and contributing to finding sustainable solutions to the grand societal challenges of our time.

A specific action for support to SMEs inspired by the successful Small Business Innovation Research (SBIR) scheme in the United States has been proposed.

Questions for discussion

- Does Horizon 2020 take the right approach in integrating research and innovation and ensuring that research results can reach the market?
- Horizon 2020 introduces funding instruments to boost innovation in SMEs. Do these instruments meet the needs of innovative SMEs and improve the ability of the SMEs to fully exploit the outcomes of EU funded projects?
- How can the proposed financial instruments best be used to overcome the problems of access to finance for innovative SMEs and other enterprises?



Annex I “Fiche de Simplification” - Main achievements and the new initiatives in Horizon 2020

Target area	Simplifications introduced during FP7	Proposals for Horizon 2020
Overall structure		<p><u>A single set of rules:</u></p> <ul style="list-style-type: none"> – All research and innovation related funding instruments (EIT, CIP, FP) are integrated into the Horizon 2020 Framework Programme and its Specific Programme – One set of participation rules which shall apply to all components of Horizon 2020 including activities under Articles 185 and Articles 187, with deviations only possible where justified by specific needs
Funding rules	<ul style="list-style-type: none"> - Introduction of simple system for average personnel costs Introduction of unit cost system for manager-owners of SMEs without salary - Adaptation of sizes of consortia allowing smaller consortia. 	<p><u>Simpler funding rules:</u></p> <ul style="list-style-type: none"> – One project – one funding rate: One single reimbursement rate for all participants instead of the three different rates in FP7. Maximum of 100 % of direct costs (except for actions close to market, where a 70 % maximum will apply) – One single flat rate of 20 % covering indirect costs, instead of the four methods in FP7 to calculate indirect costs removing a major source of errors and complexity – Simplified reimbursement of real direct costs, with a broader acceptance of beneficiaries’ usual accounting practices – Possibility of using unit personnel costs (average personnel costs), including for SME owners without a salary – Simplification of time-recording by providing clear and simple set of minimum conditions, in particular abolition of time-recording obligations for staff working exclusively on EU projects – Continuation of the system of unit costs and flat rates for mobility and training actions (Marie Curie) – Output-based funding with lump sums for whole projects in specific areas
Monitoring, reporting and control	<ul style="list-style-type: none"> - Reduction in number of audit certificates - Reduction in numbers of periodic reporting 	<p><u>Revised control strategy with new balance between trust and control:</u></p> <ul style="list-style-type: none"> – Reduction of audit burden on participants through an ex-post control strategy with emphasis on risk-based control and fraud detection, a single audit concept and reduction of limitation period for audits (should translate into a maximum of 7 % of Horizon 2020 beneficiaries being audited over the whole programming period) – Extension of guarantee fund to all actions in Horizon 2020. – Further reduction of ex-ante financial capacity checks (only coordinators) – Further reduction of number of audit certificates through only one certificate by the end of the project. – Periodic reporting – to be decided as part of the revision of



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		the Financial Regulation.
Proposal and grant management processes	<ul style="list-style-type: none"> - Electronic project management and guidance, from application to the final report. - Establishment of a clearing committee to ensure uniform interpretation and application of rules on research funding in the Commission. 	<p><u>Easier and faster proposal and grant processes:</u></p> <ul style="list-style-type: none"> - Single user-friendly IT platform for all actions under Horizon 2020. - Streamlining, harmonization and acceleration of all processes linked to programme and project implementation. - Improved guidance documents and user support (e.g. NCPs, EEN) - Further externalization - Goal: reduction of average time-to-grant by 100 days (monitored continually by the Commission)
Simplifications to be introduced via the revision of the Financial Regulation (subject to decision by Council and Parliament)		<p><u>Proposals for simplification in the Financial regulation:</u></p> <ul style="list-style-type: none"> - No more declaration of interest on pre-financing - Non-recoverable VAT becomes eligible cost - No extension of audit findings to non-audited grants (“extrapolation”) if errors non-material