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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

Interim Evaluation of the Eurostars Joint Programme

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1. CONTEXT

The Eurostars Joint Programme aims to support R & D performing SMEs by co-financing their market-oriented research projects and by providing them with the necessary legal and organisational framework. It is based on a large-scale European cooperation between Member States in applied research and innovation in any technological or industrial field. It has been undertaken by all¹ EU Member States and 6 countries associated to the Seventh Framework Programme², in the context of Eureka, a European Intergovernmental organisation in charge of supporting activities performing close-to-market R&D³.

By Decision of 9 July 2008 of the European Parliament and the Council the EU decided to participate in financing Eurostars⁴ with a contribution of up to €100 million for the period 2008-2013⁵, equivalent to a maximum of one third of the effective contributions of the Member States and the other participating countries. The Eureka Secretariat is responsible for the implementation of the programme and for receiving, allocating and monitoring the EU financial contribution.

The above-mentioned Decision (hereinafter the “Eurostars decision”) is based on Article 185 TFEU (previous Article 169 EC Treaty) which, in implementing the Multiannual Framework Programme, makes it possible to coordinate national research programmes, through a voluntary integration process between Member States, covering scientific, management and financial aspects.

In the Eurostars decision the Parliament and the Council refer, in particular, to the importance of SMEs for European growth and competitiveness, to the need for Member States and the Commission to enhance the effectiveness and complementarity of national and European support programmes for SMEs⁶, to the importance of promoting industrial innovation (including links with Eureka, especially with reference to SMEs), and to the importance of

¹ Eurostars included initially 26 Member States. With Malta joining Eurostars in October 2010, all EU Member States participate in it.

² Decision No 1982/2006/EC of the European Parliament and of the Council of 18 December 2006 concerning the Seventh Framework Programme of the European Community for research, technological development and demonstration activities (2007 to 2013) (OJ L 412, 30.12.2006, p. 1). The associated countries are Croatia, Iceland, Israel, Norway, Switzerland and Turkey.

³ EUREKA was established by a Conference of Ministers of 17 countries and Members of the Commission of the European Communities, meeting in Paris on 17 July 1985.

⁴ Decision No 743/2008/EC of the European Parliament and of the Council of 9 July 2008, on the Community’s participation in a research and development programme undertaken by several Member States aimed at supporting research and development performing small and medium-sized enterprises (OJ L 201, 30.07.2008, p.58).

⁵ The EU contribution comes from the FP7 budget allocated to "Research for the benefit of SMEs" in the Specific Programme "Capacities"

⁶ Council conclusions, 25-26 November 2004

coordinating national programmes for the development of the European Research Area (ERA).

In its recent Communication on the Innovation Union Flagship Initiative⁷, adopted in the context of the new EU's growth strategy "Europe 2020"⁸, the Commission confirmed the importance of SMEs, especially those with high growth potential, able to easily turn results into new products and services. They represent the backbone of the European economy, strongly contributing to its competitiveness and growth. A clear commitment was made to design EU research and innovation programmes ensuring simple access and stronger involvement of SMEs. In order to achieve this target, the Commission referred also to the need of further using partnerships with Member State agencies, building in particular on the experience of the Eureka-Eurostars initiative.

The European Council has made a strong plea for streamlining the EU research and innovation funding instruments, including those for SMEs.⁹ The current European landscape for SME support is very scattered and the European Commission is in the process of rethinking the overall approach. Recognising the importance of SMEs in boosting innovation in the European Union, the European Council has invited the Commission to explore the feasibility of a Small Business Innovation Research scheme, as part of a general assessment exercise aimed at meeting the needs of fast growing innovative companies through a market-based approach.

The Budget Review¹⁰ proposed that the full range of EU instruments for research and innovation work together in a Common Strategic Framework for Research and Innovation funding¹¹, a concept which has been supported by the European Council to improve the efficiency of research and innovation funding at national and EU level, allowing a seamless funding across the innovation system and the rationalisation of instruments with the elimination of potential duplications.

The Eurostars Decision requires an interim evaluation two years after the start of the programme. This evaluation was carried out by a Group of Independent Experts ("Group"), chaired by Ms Laperrouse, former Member of the European Parliament and Vice-President of the ITRE Committee.

Based on extensive documentation, case studies, country reports, and interviews with SMEs and stakeholders, the interim evaluation report (hereinafter the "Report") provided an analysis of the main aspects of the Eurostars programme (operational and strategic) and recommendations on both the short and longer term future. The Group has looked in particular at the progress towards the main objectives of Eurostars of supporting R&D performing SMEs and of aligning and synchronising national research and innovation programmes.

⁷ Communication from the Commission to the European Parliament, the Council, the European economic and social Committee and the Committee of the Regions of 6.10.2010, "Europe 2020 Flagship Initiative Innovation Union" COM(2010)546 final

⁸ Communication from the Commission of 3.3.2010, "Europe 2020" A strategy for smart, sustainable and inclusive growth' (COM(2010) 2020 final

⁹ European Council Conclusions of 4 February 2011

¹⁰ 'The EU Budget Review' – COM(2010) 700

¹¹ Green Paper 'From Challenges to Opportunities: Towards a Common Strategic Framework for EU Research and Innovation funding' COM(2011) 48

The present report provides the Commission views on the main recommendations expressed by the experts.

2. INTERIM EVALUATION OF THE INDEPENDENT EXPERT GROUP: COMMISSION'S OBSERVATIONS

According to Article 13.2 of the Eurostars decision the interim-evaluation should cover progress toward objectives set out in Annex 1 of the Eurostars decision; include recommendations on the most appropriate ways to further enhance scientific, management and financial integration, assess the ability of R & D performing SMEs to access the Eurostars Joint Programme, and assess the quality and efficiency of its implementation.

The Group's Report covered all those aspects and provided an important number of facts, comments and recommendations. The Commission considers the whole Report¹² as being an integral part of the Interim evaluation process provided by Article 13.2. The Commission will therefore highlight, in the following sub-paragraphs, only the most relevant findings/recommendations on the way forward and on those will focus its observations.

2.1. Progress of Eurostars towards its objectives

2.1.1. Need for Eurostars

The Group suggested that the target population of European R&D performing SMEs, in line with the main objective spelled out in Annex 1 of the Eurostars Decision is being reached and that this population provides a sustainable niche from the demand side perspective. The programme, with its distinctive combination of characteristics, appears to address real needs of R&D performing SMEs and it has attracted a high number of applications, with the number of qualified projects exceeding original budget allocations. With the open innovation approach rapidly becoming a common practice and the recognised importance of R&D for SMEs performance, the Group believes the demand for international R&D collaborations by SMEs to be likely to grow. The Group therefore recommends that *Eurostars should be continued beyond 2013* and that *in the next edition of the Eurostars Programme, the European Commission should prepare a proposal to expand the budget, using flexibility clauses, to respond to the increasing demand*.

The Commission welcomes the strong SME interest in Eurostars. It will be important to see whether this level of demand is maintained and that Eurostars countries are able to meet it. Furthermore, currently the majority of participating SMEs has been already involved in international research, as explained in chapter 2.3. Whether this constitutes the intended target group could be questioned. Discussions on the future budget allocation for Eurostars should take place in the light of the further evolution of the programme and eventually in the overall context of the future Common Strategic Framework for Research and Innovation funding and of the European Council conclusions of 4 February 2011.

¹² Report published on http://ec.europa.eu/research/evaluations/index_en.cfm?pg=fp7-evidence under 'Other FP7 Panel Evaluations'

2.1.2. Eurostars' socio-economic impact

The Eurostars programme is quite young, therefore only a few projects have now been completed. As recognised by the Group, the qualitative appreciation of the impact, through the measures of project additionality (input, output and behavioural- additionality), is very difficult in absence of concrete data, most of them to be collected at the end of the project.

The accurate estimation of additionality requires the application of appropriate techniques, which need specific data that the Group has indicated in its recommendations, to be collected by the Eureka Secretariat and by the National Funding Bodies.

The Commission welcomes the recommendations on the impact indicators and on the needed data which should lead to a better assessment of the project impact that Eurostars creates. It encourages the Eureka secretariat to develop these indicators and collect these data, without however imposing a too high reporting burden on SMEs. The Commission will take them into account in view of the final evaluation, which according to the Eurostars Decision will take place in 2013. It will be crucial at that time to come to a comprehensive understanding of the impact of Eurostars on the businesses of the participating SMEs.

2.1.3. Funding of eligible projects

With relation to the Eurostars resources for the period before 2013, the Group observed that the funding available for each call is not sufficient to cover all the projects which have passed the evaluation threshold. The Group recommends *to the European Commission and the Member States to provide sufficient funds to make it possible to fund a greater share of projects that meet the Eurostars evaluation threshold.*

The Commission agrees with this recommendation as far as it would allow the financing of all the best projects along the principle of the common pot. As mentioned in the Eurostars Decision, "the allocation of funding from the Community contribution and national budgets earmarked for selected Eurostars projects shall follow the order of the ranking list". Because of the way the current (not centralised) funding model operates, it however seems unlikely that an increase in budget would lead to an equivalent increase of projects funded. This can only be achieved if the Eurostars countries make sufficient provision for funding all the best ranked projects. In addition, the Commission observes that the current data on the funds effectively committed by the National Funding Bodies show that only a modest share of the budget has been used so far. Considerations on the impact of the current financial crisis on funding availability in many Member States must also be taken into account.

The Commission therefore suggests considering alternative solutions, such as tightening the project evaluation criteria as proposed by the Group, or reallocating budget from future calls to the current ones, with a possibility to move forward the unspent budget year by year.

2.2. Further enhance scientific, management and financial integration

The Group stated that, conceptually, Eurostars has featured a good level of integration of national programmes, in all the three aspects (scientific, management and financial), by setting up the main bodies and procedures as referred to in the Decision.

However, further improvements still remain to be made to achieve the desired level of integration at the implementation level, especially in the following areas: harmonisation of national funding rates and funding rules, synchronisation and reduction in time-to-contract and harmonisation of reporting practices. These aspects, more deeply linked to the implementation/operational aspects of Eurostars, are dealt with in paragraph 2.4.

The Group recommends addressing these important issues through *the development of a roadmap with measurable milestones to facilitate the monitoring and implementation of the integration process and by setting up a permanent Working Group for the exchange of Good practices.*

The Commission agrees with the recommendations of the Group with a view to further accelerate the integration process. The Commission invites the Eurostars countries to take the integration objective of the Eurostars Joint Programme into account through a better harmonisation and simplification of funding eligibility rules and alignment of financing and disbursement practices.

In addition, the Group identified and commented on further 'areas for improvement' (indicated below) which the Commission considers to be fundamental for the full and longer-term success of the programme, being at the very heart of the Eurostars construction.

2.2.1. Compliance with Eurostars rules: Common Eligibility criteria and Signed Bilateral Agreements

While not commenting on individual countries, the Group points out that *Eurostars eligibility criteria should be universally applied across all participating countries. No country should be allowed to impose eligibility conditions that go beyond Eurostars eligibility criteria. It also recommends that the Bilateral Agreements with the Eureka Secretariat should be signed by all the National Funding Bodies¹³.*

The Commission fully endorses this recommendation for the Eureka Secretariat and the Eurostars countries. The completion of the signature process of the remaining bilateral agreements is a matter of priority. It should be ensured that the Eurostars eligibility criteria are the necessary and sufficient condition for any participating project to be funded in any participating country. Compliance with Eurostars rules is essential to fully unlock the high potential of the programme, strengthens its longer term credibility and facilitates the integration process. The Eurostars Decision foresees the respect of a common set of criteria and a common set of rules to fund selected projects which are part of a common ranking list following the given order. The Commission stresses the need to fully honour this commitment for the long-term success of the programme.

2.2.2. The "Virtual Common Pot" (VCP)

Eurostars has started the programme based on a "virtual common pot" funding model, meaning that countries and regions pay for their own participants applying existing national rules, applying a 'fair return' principle. However, according to the Delegation Agreement, concrete measures for progressing towards a "real common pot" should be proposed at mid-term by the Secretariat, as part of the financial integration process.

¹³ Seven Bilateral Agreements not yet signed

The Group considers that the VCP has been an appropriate organising principle for funding the Eurostars activity. However it also observed that if one participating country runs out of earmarked budget, this may adversely affect all subsequent projects with participants that require funding from that country.

The Group recommends that *Eurostars should continue to be organised around a "Virtual Common Pot" principle. However, it is also recommended that Eurostars Joint Programme experiments with the approach of allocating 10% of total earmarked funds to a Real Common Pot, which would be used to finance highly ranked projects that risk not getting funded because of country-level complications.*

The Commission recognises the merits of the "virtual common pot" at this stage of the Eurostars Programme. There is nevertheless a concern that the continued application of the "virtual common pot" as a funding model could lead to unbalanced success rates between Eurostars countries depending on the availability of national funding, while the programme should provide 'equal opportunities' for SMEs in all countries and fully rely on the excellence principle.

As already clearly stated at the occasion of the Adoption of a Joint Baltic Sea Research and Development Programme (BONUS) based on Article 185 TFEU (ex-Article 169 EC), the "real common pot", while not a goal in itself, is one means of guaranteeing excellence and the financial commitment of Member States for all initiatives related to cross-border funding and collaboration, which remains crucial to advance in the realisation of the European Research Area.

The Commission therefore agrees with the recommendation to test such a partial "real common pot" approach, to be accomplished by 2013. The Commission invites the Eureka Secretariat to propose other relevant measures towards the same end. This is in line with the principle that for any Article 185 Initiative, the full commitment, both financial and political, of Member States is required and is a sine qua non condition for receiving European funds.

2.3. Ability of R & D performing SMEs to access Eurostars

Based on a thorough analysis using in particular the Eurostars registrant survey¹⁴ and the Community Innovation Survey¹⁵ data, the Group concluded that Eurostars is easily accessible and its rules are easily understood by applicants, the cost of applying is reasonable and the tools available are easy to use.

The programme seems to attract mainly SMEs already involved in international collaborations. While the programme appears to have a high potential to facilitate international R&D collaboration building on prior experiences, there is little evidence of de novo relationships, therefore the impact on the generation of new partnerships is limited.

¹⁴ The Eureka Secretariat launched in May 2010 a Eurostars Registrant Survey which reached 3182 registrants from Cut-off 1 to Cut-off 3. 442 registrants answered. The results of the survey have been made available to the group of Experts

¹⁵ The Group used different waves of the Community Innovation Survey.

The Group recommends that the *Eureka Secretariat and the Eureka National Programme Coordinators (NPCs) should seek to increase its reach among SMEs that do not possess pre-existing international links by 2013.*

The Commission agrees with this recommendation, considering that Eurostars is expected to complement the opportunities offered to SMEs by existing instruments in carrying out international research, and that the principle of transparency is key to the successful impact of the programme and should be fully respected.

It invites the Eureka Secretariat and the Eurostars countries to address this problem and to find ways to attract newcomer SMEs by making the programme more accessible and transparent. In the future the primary focus should also be towards addressing SMEs with the required profile rather than recruit more SMEs.

The Commission will work to facilitate the interaction and synergy creation with other EU initiatives supporting the networking between potential proposers, including SMEs new to international research.

2.4. Quality and efficiency of the implementation of Eurostars

As foreseen under an indirect central management regime, the Eureka secretariat acting as the Dedicated Implementation Structure is fully in charge of the management and operational/financial implementation of Eurostars. In its analysis of the different activities for the programme implementation (calls, evaluation, funding, project management, monitoring) the Group finds that the process runs quite smoothly. However, it identifies some areas for improvement, mainly related to the evaluation process: the Group found evident complexities in, first, the allocation of national funding to projects, and secondly, in contract negotiations between successful applicants and the National Funding Bodies.

2.4.1. Central evaluation process

The evaluation follows a two step-procedure: a first assessment by the technical experts and a second assessment by the Independent Evaluation Panel which also proceed with the overall ranking of the proposals.

With relation to the technical experts, the Group recommends that the Eureka Secretariat takes the necessary steps in order to achieve, by the end of 2013, *an increase in their number maintaining however a high level of expertise and a better balance of technical and market expertise within the pool together with a better geographical balance of experts across participating countries.*

With relation to the Independent Evaluation Panel (IEP), the Group recommends that *more time should be allocated to the members of the IEP for a more accurate analysis of the proposals to be ranked and more precise and systematic feedbacks should be provided to the project applicants and to the technical experts.*

As the report rightly points out, the success of Eurostars depends on the credibility of the entire evaluation process. Three aspects of the evaluation process are particularly salient in this regard: impartiality, quality and timeliness.

The Commission fully agrees with the above recommendations. In particular experts need to have the necessary expertise to also assess the socio-economic impact of the projects, one of the distinctive features of Eurostars.

The Commission reminds that the transparency of the entire process is a key principle underpinning the “Eurostars” decision. It therefore fully agrees with the request from the Group to improve the quality of the feedback from the evaluators to the applicants.

The Commission encourages the Eureka Secretariat to undertake the necessary steps to improve the quality of the evaluations, starting from the recruiting and selection of experts, using for instance a more user-friendly link to the application tool for becoming an expert in the Eurostars public website and through the mobilisation of the Eureka National Programme Coordinators to accomplish these tasks.

2.4.2. *Decentralised funding – time-to- contract*

A second set of operational recommendations to be implemented by 2013 refers to the funding process, where the national level becomes the main actor. The Group finds the implementation process to vary quite substantially across countries. It is important for Eurostars to achieve a high level of harmonisation across countries to reach homogeneous operational performance and increased overall efficiency of the programme. Once a proposal has been selected for funding, the negotiation phase between each applicant and its national funding body starts. The Group has identified this phase as the most complex.

The Group considers *that reducing time-to-contract* (defined as the time between cut-off date of the calls and the date of the signature of the grant agreement) *should remain one of the top priorities for all the stakeholders of the Eurostars programme and participant countries are invited to put the necessary measures in place.*

The Group also suggests possible actions to reduce time-to-contract: *earlier financial assessment by the national level; the Secretariat to monitor and discuss with 'slower' countries; common and stricter deadlines for signature of consortium and grant agreement.*

The Commission agrees with the above recommendations, and encourages the Eurostars countries to advance the processes in the national administrations as much as possible. The goal, as foreseen in the Delegation Agreement¹⁶ between the European Commission and the Eureka Secretariat, was to sign the individual grant agreement with project participants no later than 6 months after the cut-off date, by mid-term of the programme. Fully sharing the view of the Group, the Commission encourages the Secretariat to continue its efforts in monitoring time-to-contract and in identifying best practices.

¹⁶ Eurostars Joint Programme Delegation Agreement (30-CE-0270684/00-14) of 19.06.2009 between the European Commission and the Eureka Secretariat AISBL

3. CONCLUSIONS

In its first years, Eurostars has shown good potential as a programme of interest to R&D performing SMEs, supporting them to innovate. The Commission will therefore continue to support the current programme until 2013 as foreseen.

Having started in 2008, the programme's operational performance still needs further improvement. In this respect, the key measure for success is a substantially reduced time-to-contract.

From a wider perspective, the integration process of the national participating programmes needs to be reinforced. Hence, the Eureka Secretariat and the Eurostars countries should make increased efforts to accelerate the harmonisation of national rules in full respect of the Common Eurostars eligibility and evaluation criteria and procedures.

Finally, the Commission will actively engage into discussions on the possible follow up for the current Eurostars programme in the context of the next programming period, without prejudice to the preparation of the Common Strategic Framework for Research and Innovation funding and the EU Multi-Annual Financial Framework, taking into consideration the wider political context of the Innovation Union Flagship initiative and the European Council conclusions of 4 February 2011.