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EUROCITIES Response to Green Paper on Common Strategic Framework for Future EU Research & Innovation Funding

EUROCITIES

EUROCITIES is the network of major European cities. Founded in 1986, the network brings together the local governments of over 130 large cities in some 34 European countries. EUROCITIES represents the interests of its members and engages in dialogue with the European institutions across a wide range of policy areas affecting cities. These include: economic development, the environment, transport and mobility, social affairs, culture, the information and knowledge society, and services of general interest.

EUROCITIES website: www.eurocities.eu

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EXECUTIVE SUMMARY

EUROCITIES welcomes the proposal of a common framework for funding innovation and research. However, this framework needs to be ambitious enough to promote a holistic approach to innovation, as introduced in the Innovation Union, and should not just bring very specific funding programmes together.

We believe that the Innovation Union and the introduction of a common funding framework bring about an opportunity to operationalise the role of cities in innovation and research, underlining the overall European objectives of smart, sustainable and inclusive growth. A new funding framework also needs to acknowledge the current economic constraints on the public sector, provide more flexible instruments and allow for greater experimentation in supporting innovation and research.

- European innovation and research programmes are at present disconnected from broader factors of socio-economic change. A new funding framework at European level needs to support a broader concept of innovation as well as introduce more evidence-based and impact-driven principles, to demonstrate what the relationship is between 'grand' societal challenges and results of European funding on the ground.
- As the centres of economic activity, of innovation and markets, cities provide the territories where the supply side and the demand side come together.
- Cities offer 'living labs' for market, public, social and cultural innovation that address concrete challenges, whether economic, social or environmental or indeed all three. Within this framework, with the right combination of partners, a set of actions can be developed and funding designed to cover the whole process, from research and innovation to development and deployment.
- The development of wider opportunities to combine use of regional development funds with the Framework Programme (FP) and Competitiveness & Innovation framework programme (CIP) is key to the success of the Innovation Union and EU2020.
- A new funding framework should allow the combination of grant financing with local seed capital, revolving, venture capital and guarantee or collateral fund schemes to allow a more flexible and process oriented support for research and innovation.
- Access and procedures should be simplified across funding programmes.
- Information on open and upcoming calls needs to be communicated more clearly.

INTRODUCTION

Innovation and research is a major building block of the Europe 2020 strategy, with the flagship initiative 'Innovation Union', to drive research and innovation standards in the EU. EUROCIITIES supports the strategic objectives of Europe 2020 and the Innovation Union to develop an economy that is driven on knowledge and innovation. We believe that Europe's major cities play a central role in supporting research and innovation, and that this role needs to be supported more strongly within future European funding.

The principle of territorial cohesion in European research and innovation policy and in the Innovation Union means that they need to be closely linked to the realities of our cities and regions. This is an opportunity to embrace the role of public sector in innovation and research, and mainstream a holistic view of innovation to meet Europe 2020's growth ambitions - the 'sustainable' and the 'inclusive' as well as the 'smart'.

The European Parliament has supported this in a report¹ on the implementation of the synergies of the Seventh Framework Programme and ERDF research and innovation funding.

The new framework for funding innovation and research must seize this opportunity. It must be accessible, flexible, provide attractive funding and financing instruments and demonstrate clearly its societal impact and relevance.

A HOLISTIC AND EVIDENCE-DRIVEN PERSPECTIVE ON RESEARCH & INNOVATION

It is essential to take the concept of innovation beyond traditional approaches, which have dominated European public policy and have focused on large technology-focused funding schemes. This wider approach must be the basis for the Strategic Framework for Innovation & Research and should guide its objectives as well as the impact that its funding should deliver.

Technological change is a major determinant of structural change. However European research & innovation programmes are at present disconnected from broader factors of socio-economic change. Organisational, social, economic and technological domains of innovation are closely related and cannot be separated.

A strategic funding framework at European level needs to support a broader concept of innovation, introduce more evidence-based and impact-driven principles to demonstrate what the relationship is between 'grand' societal challenges and results of European funding on the ground. This could be in the form of a territorial dimension in the evaluation criteria on the socio-economic impact of grant-funded projects and activities. A future framework must deal with technological, political, institutional, economic and social change in an integrated way. This needs to support a mix of

¹ European Parliament report on the implementation of the synergies of research and innovation earmarked Funds in Regulation (EC) No 1080/2006 concerning the European Fund of Regional Development and the Seventh Framework Programme for Research and Development in cities and regions as well as in the Member States and the Union (2009/2243(INI))

'top-down' programmed research as well as 'bottom-up' community based research and funding driven by policy agendas.

Furthermore, the scope of a future framework should be defined clearly. The Green Paper lists a number of specific technology-focused funding schemes. A new framework addressing societal challenges needs to be based on broader cooperation across policy areas to meet wider objectives in areas such as climate change, energy security, demographic ageing or resource efficiency. In the future it should be possible for the currently fragmented programmes and support initiatives for research and innovation to be coordinated under a common framework (e.g. FPs, CIP, Life+, CIVITAS, INTERREG IVC, European public/private initiatives in the European Research Area (ERA) such as Technology Platforms, Joint Technology Initiatives, Joint Programming Initiatives and the European Technology Institute's Knowledge and Innovation Communities). This would allow regulations to be harmonised to allow for different and more comprehensive support of research and innovation, as set out in the Innovation Union.

CITIES AS RINGMASTERS OF RESEARCH & INNOVATION

As the centres of economic activity, of innovation and markets, cities are where the supply side and the demand side come together. Cities offer 'living labs' for market, public, social and cultural innovation that address concrete challenges, whether economic, social or environmental or indeed all three. Within this environment, with the right combination of partners, a set of actions can be developed and funding designed to cover the whole process, from research and innovation to development and deployment. New integrated solutions can be conceived, piloted and rolled out in city neighbourhoods before scaling up to whole territories. Cities can exchange, learn and strengthen the process of innovation and deployment by networking in partnership. This might stimulate ambitious transnational joint public procurement, for example, provided there is the necessary regulatory framework at European level. Cities can coordinate or facilitate 'testbedding' of products and services or facilitate social experimentation to provide evidence about the impact and outputs of European funding programmes.

City administrations are both supporters of innovation and innovators themselves. They provide services and support for the skills, processes and structures required for innovation. They are in part responsible for strengthening creative and entrepreneurial skills and develop an environment favourable to innovation. They offer infrastructure and platforms for creative organisations to meet with those who have technical or managerial skills, or can provide financing and other services.

Most EU innovation policy has focused on economic objectives, with businesses, universities and research organisations as the key stakeholders. A specific focus on SMEs needs to be continued so that they can more easily become project coordinators. They should also be assisted with the project management.

Other actors such as social enterprises and citizen organizations as well as creative and entrepreneurial individuals must also be seen as part of a complete vision for innovation. Innovation requires a range of public, private and voluntary organisations and indeed individuals to link up - they are most commonly found in cities. City governments and local administrations, if properly equipped and supported, can therefore play a ringmaster role in innovation and research.

FLEXIBLE INSTRUMENTS

With the current economic climate and the challenges facing all levels of government, innovation is essential to finding new solutions and methods to meet the changing needs and expectations of our society. A future funding framework needs to acknowledge this. The longer term nature of EU support allows for greater experimentation in policy and actions.

Planning and actions should take place at the level best suited to addressing issues effectively. Investment in capacity building at national, regional and local level would make a valuable contribution to better spending and improved results. This could be a provision linked to a range of different programmes.

The principle of co-financing fosters better spending as it acts as a tool to increase synergies between the European, national and regional levels. Grant funding should be flexibly combined with other sources and instruments. Loans, guarantees and other types of financial instruments will also be necessary. Grant financing of local seed capital, revolving, venture capital and guarantee or collateral fund schemes would allow a more flexible and process oriented support with long lasting effects.

A strong cohesion policy is key to a successful CSFRI. It must continue to cover the EU as a whole, supporting the territorial potential in all our regions and cities. The budget for cohesion policy in the next financial perspective should remain at least the same size as the current one².

The development of wider opportunities to combine use of regional development funds with the FP and CIP is an important issue in the debate on synergies. These programmes are complementary in financing certain aspects of local innovation systems and coordination between them should be a key principle of a future funding framework.

Public-private partnerships (PPPs) can be very valuable, as they can be flexible, provide significant leverage effects as well as enable cross-fertilisation and knowledge transfer between public and private sectors. It is important to ensure a high quality, long-term and transparent operating environment for business and the public sector. Achieving these objectives as a prerequisite for PPPs is the responsibility of national governments. Still, support from European frameworks can provide significant help.

Pre-commercial procurement (PCP) is an attractive concept if the risks and incentives are clearly distributed. To simplify PCP, the Commission should clarify that it does not constitute state aid if the ownership of resulting IPR is clearly defined in the tender and if the tendering process ensures adequate competition, openness, fair selection and pricing conditions.³

² The EUROCIITIES Response to the Fifth Cohesion Report can be downloaded at www.eurocities.eu - of particular relevance to the broader issue of the future EU Budget are our ideas on conditionality for member states to demonstrate that they have involved cities in the process of developing National Reform Programmes and Development and Investment Partnership Contracts.

³ See also EUROCIITIES response to the Green Paper on modernising public procurement policy, which can be downloaded at www.eurocities.eu

SIMPLIFYING ACCESS AND PROCEDURES⁴

In addition to our views on the strategic approach a future funding framework should take, we would like to share a number of technical suggestions based on cities' experience with current funding schemes.

- While we acknowledge that information on open calls for proposals is widely published, improvements are necessary in terms of accessibility of this information as well as in terms of forecasting information. Only few cities have adequate resources to check regularly the variety of relevant websites or to analyse the work programmes of the European institutions in order to establish an overview of calls to be expected in the future. Most cities either rely on external service providers (e.g. EUROCITIES preparing funding forecasts for its members) or do not have this information at all.
- We believe that the Commission should provide accessible forecasts of annual call plans for different funding programmes, including draft indications on the themes to be covered - a type of 'call calendar'. Currently such information is rather 'hidden' in the work programmes of individual DGs, which are difficult to retrieve and are often only published very late in the year.
- Future programmes should also experiment with fixed annual dates for call publication and call deadlines, following the example of some programmes such as Culture 2007-2013 or Youth in Action.
- In general, short turn-around dates for some programmes lead to problems for applicants, in particular local authorities who often have strict agreement procedures involving political approval (which can take several months).
- It would be interesting to develop pilots and trial projects within a shorter timeframe than currently. A future framework should experiment with pilot and trial projects with 18 months as maximum duration.
- We support the principle of co-funding as a basic concept of EU funding programmes so that grants work as incentives for beneficiaries to invest their own resources and efforts. However, the rules concerning what type of resources are eligible as co-financing should be reviewed in order to better reflect the operating realities of different types of beneficiaries.
- A particular concern for cities as beneficiaries of EU grants is the eligibility of staff costs. The costs of both existing and additional staff of local authorities or non-profit organisations should be considered an eligible cost to any project - this needs to be stated more explicitly as a number of programmes apply restrictions on this principle.
- Given the considerable administrative burden imposed on beneficiaries for obtaining Certificates on the Methodology for Personnel and Indirect Costs, we believe simplification and acceleration of the procedure is still necessary for those entities wishing to certify their own indirect cost calculation methods.
- A degree of flexibility should be introduced for auditing requirements, which should reflect the projects' and beneficiaries' size.
- Local authorities' usual accounting and management principles are in compliance with the respective national standards and controls: they should therefore be accepted in principle by the Commission.

⁴ See also EUROCITIES response to the Consultation on the Review of the Financial Regulation, which can be downloaded at www.eurocities.eu

- We agree that lump-sum or flat-rate funding should be more widely used, in order to reduce bureaucracy and to allow projects to evolve. In addition, harmonising the rules for spending and refunding between different projects is essential for any coordinated or integrated approach. For certain deliverables, lump-sum funding would allow for a more flexible and process-driven delivery of project activities, leading in the end to more effective results. The current approach of demanding detailed resource and time planning for the entire project duration far in advance of implementation prevents projects from developing as processes that build on results achieved to plan next steps. Lump-sum funding would let projects adapt to developments along the way and shape outputs and results according to emerging needs and contexts.
- Grant funding based on an agreed range and quality of outputs is attractive to a number of cities but there are also a number of concerns regarding the definition of these outputs and proper control of expenditure.
- However, under an output-based funding scheme, the following issues raise concerns:
 - A major challenge for output-based funding is the definition and delivery of outputs. A robust audit mechanism that can monitor the delivery of outputs at the agreed quality level needs to be put in place in order to avoid fraud. This becomes a particular issue for outputs that are intangible.
 - Another issue is how to define outputs in a way that allows for flexibility and changes over the duration of the project. One solution could be to establish performance/quality indicators for activities and outputs that are agreed between beneficiaries and the European Commission during the grant negotiation phase and to use these as a reference for monitoring delivery and signing off payments.
 - Finally, the system would need to be designed in a way that it would not exclude financially weaker partners. Even if output-based, it would still need to work with pre-financing and interim payments as many smaller partners (e.g. NGOs) cannot take on the risk of fully advancing the project costs from their own resources.
- Under a new CSFRI, it is important for the European Commission to continue harnessing the active contributions of stakeholders to European policy development through strategic partnerships with a range of non-profit organisations.
- As a membership organisation, EUROCIITIES is interested in devolving European funds to our members in order to decentralise delivery and spread engagement. This is currently not possible unless both the EUROCIITIES Brussels office and individual member cities are official partners in a grant agreement with the European Commission. It should be possible for non-profit membership organisations to devolve EU grants to their members beyond the very strict limits that are currently defined.
- Allocating project funding to carry out post-project evaluation (e.g. after one year of the end of the project contract) could allow for carrying out a 'reality check' of the impact the project⁵ might have had in the longer term. This is not possible under the current conditions but would improve evaluation or the impact that EU funding has on a local level.

⁵ ICT PSP Model Grant Agreement for projects from call 2009 onwards (Version 2, 10/07/2009) - European Commission