EFPC (UK) Ltd. and responders qualification

The company is a Scottish SME founded in 2004. We believe it is the most successful SME in Scotland measured by the number of its successes in EU RTD funding. We have completed 4 projects (1 as coordinator) and are currently working on an additional 3 projects. We also have several additional project proposals in evaluation.

M W Morron who is the CEO of EFPC (UK) has been involved with EU funded RTD projects since 1984 when he was involved with setting up the Framework Program. He has been a National Representative to two different FP Management Committees and has been personally involved in many projects since 1984 as well as having served as an evaluator 14 times.

Sources of understanding of Commission Proposals for Horizon2020

Our current formal understanding is based on the written documents produced by the Commission in December 2011 as clarified by meeting with Robert Jan Smits, Director General of Research of the Commission on 17 January 2012.

Background

Prior to making its detailed proposal in December, the Commission sought input from a wide set of sources. Those who provided input included several Scottish Universities, Scottish Enterprise and other senior Scottish bodies. However in our opinion it is too late to influence the proposal substantially but allows Scotland to organise so it maximises the benefits from it. The proposal still has the following problems from an Industrial point of view. Even though it is a stated aim to make the program more SME friendly, most of the major problems in FP7 that cause problems remain unaddressed.

Scottish Industry does badly in FP7. If one looks at the statistics, one sees that although Scottish Academics do reasonably (but not brilliantly), industrially we do very badly. In cash terms during first 5 years of FP7, Scottish Companies received 4% of UK industrial total. Scottish companies received 0.45% of the total FP7 funding but the rest of the UK companies received 10.65% of the industrial total. It is industrial performance that can improve the Scottish economy. (As an additional comparison, Israeli companies received six times that of their Scottish counterparts.) Even if Scottish companies received at the UK industrial rate, this would be an extra €5M per year. Because the Scottish perspective is generally ignored by the UK and the EU, the best approach is to try and change this in Horizon 2020.
I see the following Scottish industrial problems in FP and Horizon 2020 and suggest some solutions:

1. Complexity of the rules
2. Time to payment
3. The currency problem
4. Built in bias against small companies
5. Mistaken Commission reliance on SMEs being able to enforce contracts
6. Lack of industrial interest in Scotland
7. Inexperience of most auditors
8. Lack of Scottish representation

1. Complexity of the rules

Every new Framework Program has a stated goal to reduce complexity. None has succeeded in reality. As each successive FP has grown in size – mainly by incorporating other pre-existing programs – they have brought with them a variation in the rules. This always adds complexity.

2. Time to payment

Theoretically, within the Framework Program, there should be no cash-flow problems for SMEs – but in reality it is an enormous problem. Although pre-payments are normally made expeditiously, frequently it is not passed on expeditiously to partners. However the Commission takes an enormous time to make interim and final payments. It is not uncommon for final payments only to be made one year after a project ends. There are a variety of reasons but the Commission itself is extremely bureaucratic internally. This never used to occur when the Commission made payments directly to all participants instead of the current practice of making them via the coordinator. In effect the Commission passed the problem from themselves to the participants and as a result SMEs suffer.

3. The currency problem

All contracts and financial matters are in Euros. Thus payments and costs have to be in Euros. This creates financial risk for organisations outside the Euro zone. For SMEs it is particularly difficult. The prepayment is done in relation to a Euro budget generally created the previous year based on exchange rates at that time. When a payment is received one normally changes it to local currency at that time. However after say another year when a cost claim has to be made it generally uses the exchange rate of the first of the month after the accounting period. Thus one does not know during a period how the financial costs will relate to charges/budget. This is particularly difficult in the final cost period. Most SMEs overspend to ensure they can fully use their assigned budget in Euros.

4. Built in bias against small companies

The majority of the industrial budget is under Collaborative Research. However “impact” and “exploitation” are important factors in the evaluation. During the first four Framework Programs Technical Evaluations of Proposals were undertaken anonymously. i.e. the Evaluators could only evaluate the technology without knowing who the organisations were. Now it is not anonymous and there is an obvious bias towards known large companies/research institutions. This is especially true when “impact” and “exploitation” are taken into account as those large organisations are generally assumed to be better at
this. As this is scored during evaluations equally with the technology, it impacts SMEs in getting their ideas approved.

There is additional bias in that the SMEs do not have a strong voice in Brussels. This is best illustrated by Consortia Agreements. They are compulsory for Collaborative Research and are concluded between consortium members. The Commission promulgates, but does not officially endorse, “standard” CAs produced by large entities in Europe that are basically anti-SME. Most consortia are lead by large entities. One reason for this is that coordinators have to meet very strict financial criteria as all funding now passes via them. It is extremely difficult for an SME to meet these financial criteria, especially for the larger projects. The “standardised” CAs generally permit the coordinator to have SMEs pay not only their own bank charges but also those of the coordinator when money is transferred to them. In addition most coordinators do not transfer funding “expeditiously” as required but may take several months which makes time to payment worse. This is compounded by the next point.

5. Misstaken Commission reliance on SMEs being able to enforce legal contracts

Since the Commission tried to lower its own administrative overheads by working via the Consortia Leaders i.e. the Coordinators – unlike previously, when Commission funding was passed by the Commission directly to the recipients, it now goes via Coordinators. The Commission relies on partners taking Coordinators to court if they break signed agreements such as the CA. This is an unreasonable assumption, as an SME will only very rarely sue a large organisation and they seldom win in court. Coordinators frequently break the rules but there is little that SMEs can do. In the past the Commission dealt with it but they will not now.

6. Lack of industrial interest in Scotland

We are constantly surprised by the apparent lack of interest of Scottish SMEs in participating in FP funded projects. This is partially because of the difficulties outlined in this paper, but more importantly because of the lack of promotion, encouragement and support within Scotland. It is relatively easy for Scottish SMEs to receive some funding directly from Scottish Enterprise.

7. Inexperience of most auditors

There are two levels of audit; that provided within Scotland by accountants giving, as required, certification of costs incurred and external auditors appointed by the Commission to audit individual companies. There is no training for either type of auditor in the complex FP financial regulations. Even the auditors appointed by the Commission have little knowledge. The Commission contracts with an accounting company who send staff accountants for specific assignments that know little about the FP contract. This can result in an SME having its correct costs disallowed. The individual Scottish SME does not know enough to argue their case and as a result can lose much of their grant.

8. Lack of Scottish Representation

Scotland is unique in Europe in that it is a country – not a region of a Member State. Even so, it is treated as a region both by the UK representation and the EU. Some regions are treated better than Scotland in the FP Management Committees. Belgium is a classic example where each region is represented on the Management Committees. The UK is
represented on all those Committees but in this respect UK is synonymous with England. Very little information is passed from the UK Management Committee representatives to Scotland. For example the delegates receive a list of all organisations that applied for funding but were unsuccessful. Do we get the Scottish list? A Scottish representative should be part of the UK delegation to each Management Committee. The Commission funds two people from each Member State to attend. Traditionally the UK used to send five or six representatives to the ICT Management Committee – with no-one from Scotland.

There is additional funding/support for countries/regions that are under-represented in EU Research funding – Scotland has never been put forward or considered in this context.

**Immediate steps that could be taken to improve Scottish position**

1. Set up a Scottish Framework Program office and assign a Scottish coordinator for each program
2. Insist that these coordinators participate as part of the UK delegation to each Management Committee.
3. Have a Scottish stand at important FP events/conferences
4. Ensure that as a precondition for application funding support, Scottish Universities take a Scottish Industrial company with them into projects.
5. Have Scottish Enterprise ensure that Industrial companies, where appropriate, have considered FP funding before giving them direct funding.
6. Encourage Scottish Industrial companies that are in foreign EU ownership to leverage their owner participation in funded EU RTD.
7. Set up an office to support Scottish SMEs regarding funding/legal issues.
8. Support Scottish SMEs legally against coordinators that do not hold to signed agreements/contracts.
9. Set up a fund that would hedge currency fluctuations for SMEs in a similar fashion to the EU Guarantee fund in Brussels.

M W Morron
6 February 2012