EUROPEAN UNIVERSITY ASSOCIATION

EUA
European University Association

EU FUNDING FOR UNIVERSITIES

• sufficient • sustainable • simple •

EFSI and Horizon 2020:

Efficiency and Opportunity Cost

AN EUA REVIEW

Brussels, 23 January 2017

INTRODUCTION

The European Fund for Strategic Investments (EFSI) was created in 2015 in order "to strengthen the attractiveness of investing in Europe and in the infrastructure of a modern knowledge economy (…) by overcoming the Union's current investment difficulties and regional disparities" [1]. EFSI was designed to support strategic investments in the transport, telecommunications, energy and social infrastructures sectors, and in the fields of SMEs, environment, culture, education and healthcare, as well as research, development and innovation (RDI).

In the summer of 2016, EUA reviewed EFSI's first undertakings in respect to its specific aim to advance RDI, particularly through support to academia including collaboration with industry. EUA came to the conclusion that universities as key RDI players cannot benefit from EFSI, as loan schemes are not suitable to fund university-based research given that universities in most European countries are not allowed to or are restricted from borrowing money. Furthermore, the nature and scale of projects considered for financing essentially excludes universities from the scheme [2].

Following EFSI's first year of work, a series of internal and external evaluations were conducted to assess the early progress of the scheme and to advise on its future. This note briefly analyses the key reviews and explores the relationship between EFSI and Horizon 2020.

Evaluation of EFSI: Opinion of the European Court of Auditors

In late 2016, the European Investment Bank (EIB) published the evaluation report on the functioning of EFSI [3], followed by an independent report by E&Y [4]. These broadly positive reviews provided the basis for the Commission to propose the extension of the EFSI Regulation and an increase in the EU budget guarantee [5]. The European Court of Auditors (ECA), however, identified several major gaps in the EFSI processes [6], which can be briefly summarised as follows:

a) The extension of EFSI just one year after its launch is premature given the lack of evidence on its performance, implementation and added value. The existing evaluations lack a "comprehensive, rigorous, evidenced-based impact assessment." Additionality is not always fully respected, as some of the projects could have been financed without EFSI support [4], whereas project risks may be overrated in order to reach the investment target [6]. Similarly, the proposed increase of the EU Guarantee is insufficiently justified and premature since EFSI still has a significant investment capacity sufficient to continue to fund activities for the next two years.

b) The multiplier effect of EFSI may be overstated, particularly for the investment projects to which investors committed or which are part of national programmes that existed even before EFSI was launched. The EFSI methodology to calculate additional investment mobilised by the financial instruments accounts for all sources of finance attracted by a project, which are not necessarily the result of the EU contribution. In addition, past analyses of the programming period 2007-2013 revealed that financial instruments under shared management were often overcapitalised, struggled to control cost/fees, attract private capital and re-use financial support.

c) EFSI's operations are subject to significant geographical imbalances. The review of the EFSI portfolio after one year of operations shows that it is highly concentrated. Thus, under the Infrastructure and Innovation Window, 63% of the total amount signed accounted for the United Kingdom, Italy and Spain and 91% for the EU15. Under the SME Window, 54% of the amount signed (excluding multi-country operations) went to Italy, France and Germany, and 93% to the EU15 [3].

Opportunity cost of EFSI and Horizon 2020

Referring to the EFSI impact, the ECA noted that "it is too soon to assess the opportunity cost of these cuts agreed in 2015, as the Commission is not yet in a position to assess the impact of EFSI, Horizon 2020 or the CEF" [6].

Nevertheless, the creation of EFSI and the Guarantee Fund with a 50% target rate has limited the budgetary flexibility in the 2014-2020 Multiannual Financial Framework (MFF) by reducing the unallocated margins under the MFF expenditure ceiling. In addition, the planned budget for Horizon 2020 has been reduced by €2.2 billion.

The first impact assessment of Horizon 2020 is underway, performed by a dedicated High Level Expert Group as part of the programme's interim evaluation. Stakeholders broadly agree that the Framework Programme (FP) is a highly effective instrument for funding research and innovation in Europe with a proven added value. Past impact studies highlighted multiple positive macro- and micro-economic effects associated with the FP, e.g. an increase in total R&D investment as well as fostered innovation and collaboration. According to the OECD-based analysis of the Joint Research Centre, every €1 invested by the FP generates on average €13 in increased value added of the business sector [7]. Thus, the long-term macro-economic impact of FP7 amounted to 900,000 jobs, of which 300,000 in research, an extra 0.96% in GDP, an extra 1.57% in exports, and a reduction by 0.88% in imports [8].

Various stakeholder consultations on the mid-term progress of Horizon 2020 exposed the problem of the marginal success rates for proposals and the oversubscription of the FP. The EUA member consultation revealed that even top proposals cannot be funded because of the limited call budgets (Fig. 1).

Despite a significant increase in funding for Horizon 2020, the number of proposals to the FP, including high quality applications, has been growing at a faster pace. This trend reflects both the dynamism of the European RDI sector and the decreasing volume of funding at the national level, captured in the EUA Public Funding Observatory reports [10].

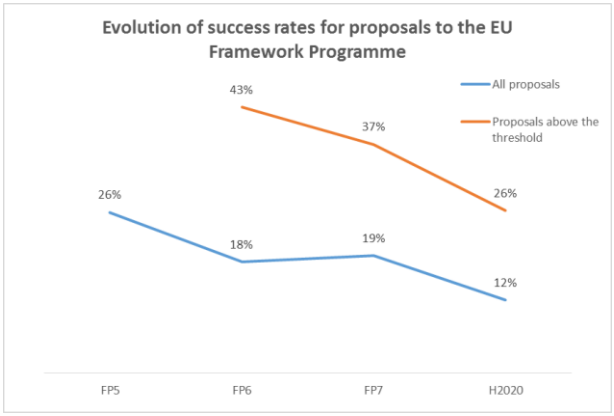

Figure 1. Source: EUA calculations based on data provided in periodic reports for FP5, FP6, FP7 and Horizon 2020

Indeed, the oversubscription may be caused by different factors varying from the high attractiveness and prestige of Horizon 2020 to the unfavourable national funding situation. However, any decrease in the budget of Horizon 2020 clearly reduces the programme's efficiency and funding rates.

Calculations for the first 100 calls of Horizon 2020
Total EU contribution: EUR 5.5 billion
Total full eligible proposals: 31,115
Total retained proposals: 4315
Average success rate for proposals: 14%
Share of unfunded proposals: 86%
Total unfunded proposals: 26,800
Estimated cost per proposal: between EUR 10,000 and EUR 100,000
Total cost of 26,800 unfunded proposals: between EUR 268 million and EUR 2.68 billion
Average total cost of 26,800 unfunded proposals: EUR 1.34 billion

Figure 2. Source: EUA calculations based on European Commission's data on the first 100 calls of Horizon 2020

Hence, the opportunity cost of EFSI must take into account a waste of research ideas and resources under Horizon 2020, as each unfunded proposal has both monetised and intangible costs incurred by the applicants and their national funders.

Basic calculations show that between 30 and 50% of the funding that countries get from Horizon 2020 goes to cover the costs of the total number of applications, successful or otherwise. Even though the cost of putting together a research grant application can vary significantly (with some complex proposals ranging up to and above €100,000) an average proposal cost of €50,000 allows one to estimate the waste in the system at €1.4 billion, which is tremendous when compared to the €5.5 billion allocated for the first 100 calls (Fig. 2). As European universities are largely funded from public budgets, it is the taxpayer who ends up paying the bill.

Conclusion

The existing evidence on the first-year activities of EFSI reveals some worrying trends linked to the potentially overrated efficiency and effectiveness of public investment via this scheme, the lost opportunity for other key RDI programmes such as Horizon 2020 and multiple side effects including geographical imbalances in investment into regional development.

Following its member consultation, EUA has tabled a series of policy messages and actions aimed at improving the efficiency of Horizon 2020 in achieving its ambitious goals [10]. Sufficient and sustainable funding to the Framework Programme is fundamental to this process. Therefore, the funds diverted from grant-based activities of Horizon 2020 to EFSI must be re-invested into the Framework Programme, which has already successfully proven itself as a high impact pathway to knowledge-based growth and development in Europe.

References

1. Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 – the European Fund for Strategic Investments. URL: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2015.169.01.0001.01.ENG.
2. One year of EFSI. What's in it for universities? An EUA review, 16 June 2016. URL: www.eua.be/activities-services/eua-campaigns/eu-funding-for-universities.
3. Operations Evaluation. Evaluation of the Functioning of the European Fund for Strategic Investments. European Investment Bank, September 2016. URL: www.eib.org/infocentre/publications/all/evaluation-of-the-functioning-of-the-efsi.htm.
4. Ad-hoc audit of the application of the Regulation 2015/1017 (The EFSI Regulation). Final Report, November 2016. URL: http://ec.europa.eu/priorities/sites/beta-political/files/ey-report-on-efsi_en.pdf.
5. Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 1316/2013 and (EU) 2015/1017 as regards the extension of the duration of the European Fund for Strategic Investments as well as the introduction of technical enhancements for that Fund and the European Investment Advisory Hub. URL: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52016SC0298.
6. EFSI: an early proposal to extend and expand. European Court of Auditors' Opinion No 2/2016 (pursuant to Article 287(4) of the Treaty on the Functioning of the European Union (TFEU)). URL: www.eca.europa.eu/Lists/News/NEWS1611_11/OP16_02_EN.pdf.
7. Commission Staff Working Paper on Impact Assessment, July 2011. URL: http://ec.europa.eu/research/horizon2020/pdf/proposals/horizon_2020_impact_assessment_annexes.pdf.
8. European Commission's Memo 11/520. Added value of Research, Innovation and Science Portfolio, July 2011. URL: http://europa.eu/rapid/press-release_MEMO-11-520_en.htm.
9. EUA Member Consultation: A contribution to the Horizon 2020 mid-term review. URL: www.eua.be/Libraries/publications-homepage-list/eua-membership-consultation-2016-mid-term-review-of-erasmus.pdf?sfvrsn=4.
10. EUA Public Funding Observatory report 2016. URL: www.eua.be/Libraries/governance-autonomy-funding/public-funding-observatory-2016.pdf?sfvrsn=4.

For any further enquiry, please contact:
European University Association
Governance, Funding and Public Policy Development Unit

Thomas Estermann, Director: thomas.estermann@eua.be
Veronika Kupriyanova, Policy & Project Officer: veronika.kupriyanova@eua.be
General contact address: funding@eua.be