

At a glance

Financial and/or in-kind contributions in Horizon Europe

What is this about?

In the context of proposed Horizon Europe Partnerships, the EU Commission and EU Member States are raising increased expectations on financial and/or in-kind contributions by the private side. As contributions by beneficiaries, which are not private Partners, are not counted and all of the expectations should be demonstrated by the private Partners only, this would allow for significant »free-riding«.

Bitkom view

These modified conditions would make Horizon Europe Partnerships less attractive compared to Horizon 2020 Partnerships. The incentives for stakeholders to become members in Associations coordinating Horizon Europe Partnerships would be considerably reduced. If the number of Association members cannot remain sufficiently high to support the envisaged threshold, any Association would eventually run into difficulties with the risk of collapsing.

Core points

The Associations for the representation of the private side are an essential part of European Partnership to develop and coordinate coherent long-term research roadmaps. In order to keep the conditions for Partnerships attractive for all stakeholders, Bitkom recommends the following:

- **Funding rates should be decided at the level of Partnership bodies** and should stay in the range between 70 % (IA) and 100 % (RIA) to enable SMEs to participate
- **The administrative costs of the programme office should be shared in a fair way between all beneficiaries** in case of an Institutionalised Partnership
- **There should be no request for cash contributions from the private side** for free use of budgets for the operational costs of a partnership
- **All beneficiaries should be considered for the calculation of financial and/or in-kind contributions** instead of private Partners only

Position Paper

Financial and/or in-kind contributions by private Partners in European Partnerships in Horizon Europe

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Summary

In the context of proposed Horizon Europe Partnerships, the public side (EU Commission and EU Member States) is raising **increased expectations on financial and/or in-kind contributions by the private side**. All these expectations should be demonstrated by the private Partners¹ only. Contributions by beneficiaries, which are not private Partners, are not counted. Therefore, private Partners would face considerable expectations on financial and/or in-kind contributions, which would make it financially more beneficial not to be a private Partner and allow for significant »free-riding« by beneficiaries that are not private Partners and hence make no financial contributions. This paper is mainly focussing on European Partnerships **without** funding from EU Member States, which corresponds to the majority of proposed Co-programmed and Institutionalised Partnerships according to Article 187 of TFEU.

These modified conditions would **make Horizon Europe Partnerships less attractive** compared to Horizon 2020 Partnerships. The **incentives for stakeholders to become members in Associations coordinating Horizon Europe Partnerships would therefore be considerably reduced**. Hence, if the number of Association members cannot remain sufficiently high to support the overall envisaged threshold, any **Association would eventually run into difficulties with the risk of collapsing**.

The Associations for the representation of the private side are an essential and integral part of European Partnership to develop and coordinate **coherent long-term research roadmaps contributing to overall political objectives** such as Green Deal and technology sovereignty. Thus, it is essential to keep the conditions for strong Partnerships attractive for all stakeholders. To this end, Bitkom recommends the following:

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¹ Private Partners are the private Members of the European Partnerships or their constituent entities (i.e. represented by the respective industry Association(s) acting as private Member(s)) or their affiliated entities (i.e. affiliates of the private Members or of the members of the industry Associations). However, financial and/or in-kind contributions need to be demonstrated by the members of the Association.

- Funding rates should be decided at the level of Partnership bodies and not generally enforced and should stay in the range between 70 % (IA) and 100 % (RIA) to enable SMEs to participate under affordable conditions and to keep the programme attractive for all stakeholders.
- The administrative costs of the programme office in case of an Institutionalised Partnership should be shared in a fair way between all beneficiaries instead of private Partners only, because all beneficiaries benefit from the services of the office.
- There should be no request for cash contributions from the private side for free use of budgets for the operational costs of a partnership.
- All beneficiaries instead of private Partners only should be considered for the calculation of financial and/or in-kind contributions to get a realistic picture of the private engagement and to allow for a fair sharing of these contributions.
- The Associations should be able to attract new members from beneficiaries to broaden the base for counting financial and/or in-kind contributions.
- A catalogue of reasonable additional activities, which can be reported safely with respect to company secrets and confidential information as well as competition law, should be agreed between the private side and the EU Commission (counterpart unit in the EC DG for signing the contract) during the preparatory phase of the Partnership.
- Therefore, the reporting system for financial and/or in-kind contributions especially for competitive information should either use an independent trusted agency (e. g. Eurostat) or should be based on public information.

These recommendations also apply to European Partnerships **with** Member State funding.

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1 Introduction

Partnerships in Horizon Europe aim to address research and innovation topics with significant importance for the European society and economy. Their objectives, apart from the scientific and technological nature, are also aiming to address political goals such as the Green Deal and technology sovereignty of Europe. Meeting these goals will improve Europe's industrial competitiveness and its position in a complex, unsteady and challenging global environment.

In the context of proposed Horizon Europe Partnerships, the public side (EU Commission and EU Member States) are raising increased expectations on financial and/or in-kind contributions by the private side. Details on financial and/or in-kind contributions and especially their implementation are still under discussion. However, the available legal conditions and discussions with the EU Commission are raising concerns on the private side on the implications and the successful implementation of European Partnerships as well as the attractiveness of the programme.

This document is describing the conditions, their implications and risks as well as proposals for a reasonable implementation.

2 Conditions and Implications on Partnerships

Three different types of financial and/or in-kind contributions are expected for Partnerships in Horizon Europe based on the legal framework in [1] to [4]:

- 1) In-kind contributions to the operational costs at project level, i.e. reduced funding rates.
 - Reduced funding rates apply to all beneficiaries except non-profit legal entities.
 - However, the in-kind contributions result from reduced funding rates are only counted for private Partners
- 2) Financial contributions to the administrative costs of the Institutionalised Partnership (= programme office).
 - Financial contribution to the cost for the programme office only applies in the case of Institutionalised Partnerships. This does not apply for a Co-programmed Partnership.
 - The private share of the office cost should only be covered by private Partners and not by all beneficiaries, which benefit from the services of the programme office.

3) In-kind contributions in implementing additional activities.

- Additional activities, which are yet to be defined in detail, mean building the ecosystem to bring new systems, solutions and products to the market.
- Only contributions by private Partners are counted.

The sum of these three types of financial and/or in-kind contributions should reach 100 to 300 % of the total received public funding during the lifetime of the Partnership.

Furthermore, to assess overall private contributions, a leverage factor of private investment compared to received EU funding is requested. In addition, other cash contributions may be requested based on Annex III to the Horizon Europe Regulation for use in research programmes without defining a clear purpose in advance.

2.1 In-kind contributions to the operational costs at project level

Bitkom welcomes the principle of »Open Calls for Proposals«, which enables the community to participate in Partnership projects. However, it is regarded as counterproductive that contributions at project level are only counted for private Partners. The flexibility under the partially agreed Horizon Europe Regulation [2] must be maintained. European Partnerships should be allowed to design, frame and regulate the open calls in order to be effective and deliver on the programme objectives and to demonstrate benefits of being an Association member to the stakeholder community.

In-kind contributions at project level means only partially reimbursing eligible cost for all beneficiaries but are only counted for private Partners. Such reduced funding rates should be carefully assessed and decided only on the level of Partnership bodies and not generally enforced for all Partnerships. Low funding rates may reduce the attractiveness of European Partnerships at the expense of supporting overall European policy objectives.

Funding rates should remain in the range between 70 % (IA – Innovation Actions) and 100 % (RIA – Research and Innovation Actions) depending on Technology Readiness Levels of the actions and may only be lower for close to market activities for nearly commercial trials. However, with respect to the complexity of implementation only a small set of fixed funding rates should be decided by Partnership bodies.

Funding rates need to remain in a sufficiently high range for SMEs to participate in projects under affordable conditions. Otherwise, Partnerships in Horizon Europe may lose the participation of SMEs and even big multinationals.

It should be understood that under the funding models in Horizon 2020/Horizon Europe with

- 70 % of eligible direct cost plus 25 % overhead for IA and
- 100 % of eligible direct cost plus 25 % overhead for RIA

the reimbursed eligible cost does not correspond to the real cost of private Partners. Already under these cost models most beneficiaries are providing in-kind contributions at project level due to higher overhead cost.

Therefore, the real overhead cost should be considered for in-kind contributions at project level. In addition, in-kind contributions at project level should be counted for all beneficiaries and not limited to private Partners only for a fair evaluation.

2.2 Financial contributions to the administrative costs

In the case of Institutionalised European Partnerships, the private side is expected to share the cost of the programme office with the EU Commission. This cost share has to be covered only by private Partners. However, the programme office is providing services to all beneficiaries by issuing calls for proposals, proposal evaluation, contract and financial management and project reviews. Therefore, despite the rules in [4] all beneficiaries should contribute a fair share to finance the office.

The successful implementation of Partnerships requires support by private Partners, which can only be ensured by fair burden sharing among all beneficiaries.

2.3 In-kind contributions in implementing additional activities leverage factor

The term »additional activities« is yet to be defined. In any case, it should closely match typical business activities undertaken by private Partners to develop the ecosystem and to promote systems, solutions and products before reaching the market and should not increase cost on the private side, which may reduce global competitiveness.

Therefore, the industry Associations acting as private Members of the partnerships should agree with the EU Commission a catalogue of reasonable activities. Such activities depend of the sector and private Partners.

Such contributions should not only be demonstrated by private Partners but by all beneficiaries to provide a realistic picture of the private engagement.

These in-kind contributions usually comprise company internal and close to the market activities. Key Performance Indicators of such activities may be company secrets or confidential information. On the other hand, these additional activities should be reported publicly, also to the European Parliament. Therefore, such information cannot be collected by the private side (e. g. the Association) to avoid the violation of company secrets, confidential information or even of competition law. Such information on company level may provide information on company strategies in terms of technology and regional investments. Therefore, it is strongly recommended that

- either a third independent trusted agency (e. g. Eurostat) should collect such information
- or the reporting should only be based on public information (press releases, public reports).

The reporting should avoid additional administrative overhead for the private Partners.

In addition, a leverage factor (times the received EU funding) of overall investment on the private side is expected. The financial and/or in-kind contributions and especially the contributions by additional activities should be considered as part of the leverage factor to stay in a realistic order of magnitude of overall private investment.

2.4 Contribution provided by private Partners only

All expectations on financial and/or in-kind contributions should be demonstrated by private Partners only. Contributions by beneficiaries, which are not private Partners, e. g. by reduced funding rates and additional activities are not counted. That means that all required contributions between 100 to 300 % of the total received EU funding to all beneficiaries are requested to be demonstrated only by private Partners. Therefore, private Partners would face considerable expectations on financial and/or in-kind contributions, which would make it financially more beneficial not to be a private Partner.

In the case of European Partnerships without Member State funding the partner other than the Union is represented by an Association or more than one. Especially for Associations with a low number of members or where their members and affiliates receive only a small share of the total public funding, this approach would increase the financial burden for all remaining Association members, to the point of making it an entry barrier that would be too high for most SMEs and research institutions. It would also create considerable problems for the bigger industry members. The members of the Association are also required proving their long-term financial commitment and address the leverage effect that is required by the EU Commission, making the entry barrier even higher.

These conditions would make Partnerships less attractive. The incentives for stakeholders to become members in such Associations would just disappear. This would lead to the eventual collapse of any Association as the remaining members will not be able to support the overall cost if the number of Association members cannot remain sufficiently high. This issue is expected to affect especially the SMEs, research institutions and universities. It could force them to leave the Association because they will not afford to contribute, for example, to the high cost of the programme office in an Institutionalised Partnership. In the end, also bigger industry members could drop out.

However, the Associations for representing the private side with an appropriate governance model are an essential and integral part of Partnerships to develop and coordinate coherent long-term research roadmaps.

Despite the requirements in [4] Associations should be able to increase the number of members for fairer sharing of cost and in-kind contributions. This Article should be implemented in a flexible way.

3 Risks and Recommendations

In the context of proposed Horizon Europe Partnerships, the public side (EU Commission and EU Member States) is raising **increased expectations on financial and/or in-kind contributions by the private side**. All these expectations should be demonstrated by the private Partners² only. Contributions by beneficiaries, which are not private Partners, are not counted. Therefore, private Partners would face considerable expectations on financial and/or in-kind contributions, which would make it financially more beneficial not to be a private Partner and allow for significant »free-riding« by beneficiaries that are not private Partners and hence make no financial contributions. This paper is mainly focussing on European Partnerships **without** funding from EU Member States, which corresponds to the majority of proposed Co-programmed and Institutionalised Partnerships according to Article 187 of TFEU.

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4 References

- [1] EU Commission: Treaty of the Functioning of the European Union. 2012.
↗ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012E/TXT&from=EN>.
- [2] EU Commission: Proposal for a Regulation of the European Parliament and of the Council establishing Horizon Europe – the Framework Programme for Research and Innovation, laying down its rules for participation and dissemination. Brussels, 7.6.2018, ↗ https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-horizon-europe-regulation_en.pdf.
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- [4] EU Commission: Commission Delegated Regulation (EU) 2019/887 of 13 March 2019 on the model financial regulation for public-private partnership bodies referred to in Article 71 of Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council. 29.5.2019, ↗ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R0887>.

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