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Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the participation of the Union in a Research and Development Programme jointly undertaken by several Member States aimed at supporting research performing small and medium-sized enterprises

(Text with EEA relevance)

{SWD(2013) 242 final}
{SWD(2013) 243 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

1.1. Objectives of the proposal

This proposal concerns the participation of the European Union, on the basis of Article 185 of the Treaty on the Functioning of the European Union (TFEU), in the Eurostars-2 Joint Programme (Eurostars-2) undertaken by several Member States as a follow-up to the Eurostars Joint Programme.

The overall objectives of the Eurostars-2 are:

- to promote market-oriented transnational research activities in any fields of research-performing small and medium-sized enterprises (SMEs)[1,2], especially those without previous experience in transnational research, leading to the placing of new or improved products, processes and services on the market;
- to contribute to the completion of the European Research Area (ERA) and to increase the accessibility, efficiency and efficacy of public funding for research-performing SMEs in Europe by aligning, harmonising and synchronising the national funding mechanisms.

The competitiveness of research-performing SMEs will be enhanced and will therefore actively contribute to European economic growth and job creation to achieve the Europe 2020 objectives.

1.2. Grounds for the proposal

SMEs make up the backbone of the European economy and have the potential to contribute significantly to creating more growth and jobs in the European Union. Across the EU, there are around 20.7 million SMEs representing more than 98% of all businesses in the EU, accounting for approximately 58% of the EU's GVA[3,4] and employing more than 87 million people (67% of total employment, and in some key industries as much as 80% of all jobs).

Amongst those SMEs, innovative research-performing SMEs form a very dynamic sub-group which can greatly contribute to growth and jobs, even more so if they are engaged in transnational R&D collaboration. However, a number of market failures prevent SMEs from easily accessing the necessary private funding for their R&D; existing national R&D programmes very seldom accommodate transnational collaborations and are not sufficiently synchronised and interoperable. In addition, while a number of complementary EU initiatives address innovative SMEs (e.g. the financial instruments such as the Risk Sharing Instrument

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1 An SME is a firm that has fewer than 250 employees, generates annual turnover of less than €50 million and is independent of larger enterprises, according to Commission Recommendation 2003/361/EC of 6 May 2003. See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:en:PDF.

2 A research-performing SME is an SME which reinvests at least 10% of its turnover or devotes at least 10% of its full-time equivalents (FTEs) to research and development activities.

3 Gross Value Added (GVA) includes depreciation and rewards to labour, capital and entrepreneurial risk. GVA is what remains when intermediate costs are deducted from sales or turnover.

4 SME performance review 2012 Report, October 2012, http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/annual-report_en.pdf.

or the newly conceived SME instrument), a programme specifically dedicated to transnational R&D performed by research intensive SMEs does not exist at EU level.

In 2008, 32[5] European countries that were members of the Eureka network[6] decided to adopt a coherent approach at European level in the field of research-performing SMEs by setting up the Eurostars Joint Programme. The objective of Eurostars is to support research-performing SMEs by co-financing their market-oriented transnational research in a bottom-up manner and by providing them with a legal and organisational framework.

Under the Decision[7] of 9 July 2008 of the European Parliament and the Council, the European Union participates financially in Eurostars by way of Article 185 TFEU (ex-Article 169 EC) with a contribution of up to one third of the effective contributions of the participating Member States and the other participating countries, within a ceiling of €100 million, for the period 2008-2013. The Eurostars Programme is implemented through a dedicated implementation structure, the Eureka Secretariat ('the ESE'), which is responsible for the execution of the programme, in particular organisation of the calls for proposals, verification of the eligibility criteria, peer-review evaluation and selection of projects, monitoring of projects and allocation of the Union contribution.

An interim evaluation of Eurostars[8] was conducted in 2010 by a Group of Independent Experts[9], to which the Commission replied with an Interim Evaluation Report[10], adopted in April 2011. The Competitiveness Council, in its conclusions of 31 May 2011[11] on the above-mentioned documents, welcomed the view of the Group that Eurostars is well aligned with the objectives of Europe 2020, complements well the opportunities offered to SMEs in FP7 for international cooperation and has proven attractive to the target group by successfully reaching European research-performing SMEs. It also welcomed the Group's recommendation that Eurostars be continued beyond 2013 and committed to consider its continuation in the overall context of the future Common Strategic Framework for Research and Innovation Funding.

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5 Eurostars initially included 26 EU Member States and five countries associated with the Seventh Framework Programme. With Malta joining Eurostars in October 2010, all EU Member States take part. The associated countries are currently six: Croatia, Iceland, Israel, Norway, Switzerland and Turkey.

6 Eureka is a European intergovernmental network, established by a Conference of Ministers of 17 countries and Member States of the European Communities in 1985, with the aim of supporting industrial research collaboration. It currently has 40 member countries and supports also individual projects, clusters and an umbrella programme besides Eurostars.

7 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, 30.7.2008, p. 58. See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:201:0058:0067:EN:PDF.

8 Full report: http://ec.europa.eu/research/evaluations/pdf/archive/fp7-evidence-base/other_fp7_panel_evaluations/eurostars_programme_interim_evaluation.pdf.

9 The Group of Independent Experts was chaired by Ms Laperrouze, former Member of the European Parliament and Vice-President of Parliament's Committee on Industry, Research and Energy (ITRE).

10 Report from the Commission to the European Parliament and the Council, Interim Evaluation of the Eurostars Joint Programme, Brussels, 8 April 2011, COM(2011) 186. See http://ec.europa.eu/research/evaluations/pdf/archive/other_reports_studies_and_documents/communication_eurostars.pdf.

11 See http://register.consilium.europa.eu/pdf/en/11/st11/st11030.en11.pdf.

The Council also highlighted a number of recommendations for improving the programme in the future, including the need for participating countries and the EU to provide sufficient funds to finance a maximum of top-ranking projects meeting the Eurostars threshold criteria; the need to further streamline and harmonise the implementation processes and funding rules at national level to improve the effectiveness and efficiency of Eurostars; and the need to continuously improve the quality of evaluations and to keep a short time to contract as a priority.

On 22 June 2012, the Eureka Ministerial Conference in Budapest endorsed a document ('the Budapest document') stating the interest of the Eureka countries in supporting the follow-up to the Eurostars Programme. The Budapest document sets out a common vision for a Eurostars-2 and the basis for addressing the above-mentioned recommendations of the interim evaluation. In January 2013, the informal financial commitment indicated by the majority of the Eurostars countries for the period 2014-2020 amounted to almost three times the countries' commitments for Eurostars. The Budapest document invites the EU to participate in Eurostars-2.

The Commission proposal for Horizon 2020[12] includes a dedicated activity for research-intensive SMEs in 'Innovation in SMEs', which will support the next stage in the Eurostars scheme implemented in partnership with Member States and reoriented along the lines stated in its interim evaluation. This is the only programme under Horizon 2020 specifically dedicated to research-performing SMEs, open in any field of research and development, and having an additional impact on furthering integration of national research programmes, therefore contributing to the completion of the ERA. With its bottom-up approach and business-driven agenda, Eurostars-2 is well placed under the 'Industrial Leadership' part and will strongly contribute to achieving its objectives by supporting projects of direct relevance to a number of leading and enabling industrial technologies and help innovative research intensive SMEs to grow into world-leading companies.

2. RESULTS OF CONSULTATIONS WITH INTERESTED PARTIES AND IMPACT ASSESSMENTS

2.1. Consultation on the future on the Eurostars Joint Programme

An extensive number of consultations have been performed during the last three years on Eurostars and its future development. They have covered all internal and external stakeholders. Comments have been received among other things on the identification of the main problems and barriers, on issues linked to subsidiarity and on possible future options and their impacts.

An open public consultation on the SME support measures and on the use of Article 185 TFEU took place as part of the public consultation on the 'Green Paper on a Common Strategic Framework for EU Research and Innovation Funding', European Commission, February–May 2011. Eurostars was addressed or mentioned in 70 of the 849 position papers responding to the Green Paper. The views were positive for more than 80% of the responding organisations. The few critical comments (10%) mainly had to do with synchronisation issues. Other remarks focused on the fact that Member States' commitments were not always honoured, on the harmonisation of funding rules, on the budget level and the time to contract.

[12] COM(2011) 811 final.

The Green Paper open consultation was followed up by two open Workshops on 'Innovation in Small and Medium Enterprises' in Brussels[13] involving 160 participants consisting of experts in both R&I and SME matters coming from European and national SME and industry associations and representatives of Member States, governmental bodies and SME National Contact Points. The workshop discussions led to two main conclusions on the scope of a future Eurostars-2: firstly, Eurostars-2 should continue with the same target group (research-performing SMEs); secondly, there was no support among the workshop participants for the idea of enlarging the scope of Eurostars also to non-research-performing SMEs since the number and size of national programmes supporting other kind of SMEs (such as research for the benefit of SMEs) was not sufficient to form a critical mass and to set up a joint programme under Article 185 TFEU.

Potential and actual final beneficiaries of projects funded under Eurostars (SMEs and research institutes) and other stakeholders were also consulted in the context of the interim evaluation by the Group of Independent Experts in 2010[14]. The group recommended continuing the programme subject to the improvements along the lines indicated in the report.

The Commission discussed continuing to provide EU support for Eurostars-2 in an Impact Assessment Steering Group (IASG) gathering different Commission departments in 2012. The IASG contributed to the planning and roadmap for the preparation of the Impact Assessment Report accompanying this proposal, with special reference to the problem statement and the relevance of the Eurostars Joint Programme to other EU policies.

2.2. The policy options

The Impact Assessment Report included the following options:

Option 1 — The business as usual (BAU) option (baseline)

This option corresponds to the continuation of the existing Eurostars Joint Programme during the next programming period (2014-2020) with its current format, implementation arrangements and overall budget. The EU participation and financial contribution would be the same as for Eurostars 1 (the EU financial contribution is up to €100 million under FP7). This option is set as the baseline.

Option 2 — The zero option (no EU involvement in Eurostars-2)

Under this option the EU participation and financial contribution to Eurostars would be stopped after the end of its current funding phase (by the end of 2013). Member States would be left to decide whether to continue Eurostars and to what extent to pursue the scientific, managerial and financial integration.

Option 3 — The reinforced partnership option

The reinforced partnership option means that the existing Eurostars Joint Programme would be continued in the next programming period as an Article 185 TFEU initiative in an improved format based on full implementation of the recommendations made in the Interim Evaluation Report and with an enhanced degree of integration and on an extended scale.

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[13] The reports on the Workshops are published on the internet: http://ec.europa.eu/research/horizon2020/pdf/workshops/innovation_in_small_and_medium_enterprises/summary_reports_workshops_on_21_june_and_12_july_2011.pdf#view=fit&pagemode=none.

[14] Interviews with 37 Eurostars participants, 17 national R&D institutions in 10 countries and more than 3000 registrants on the Eurostars application site.

Strongly encouraged by the Commission departments, Eureka member countries have agreed on specific measures to be implemented in Eurostars-2 which will lead to a short time to contract, more standardisation of rules and processes, lean administration and higher synchronisation and integration of funding. In order to enhance the programme and to support a greater number of research-intensive SMEs with growth potential, Member States committed to substantially increasing the financial volume of the programme. This responds to the increasing demand from SMEs since the start of the programme and reflects the absorption capacity of the Eurostars target group. Consequently and in order to incentivise and support further the above-mentioned improvements, the EU financial contribution would be raised accordingly.

2.3. Results of the ex-ante impact assessment

The ex-ante impact assessment concluded that Option 3 is the preferred option in view of its effectiveness in achieving the objectives, its efficiency and its coherence across all criteria. This is fully supported by the stakeholders, since 99% of the respondents to a survey addressed to all HLRs/NPCs in November 2012 (28 Eureka HLRs and/or NPCs from 22 Eureka member countries replied) considered the option of a 'New reinforced partnership' as very suitable and capable of bringing more impact in 'enhancing the competitiveness of R&D-performing SMEs'.

In February 2012, the Impact Assessment Board reviewed and approved the Impact Assessment Report. In its Opinion it requested improvements to the report, and these have been taken into account. In particular, the report now explains more clearly the policy context, the relations with other EU initiatives, the remaining problems and the specific measures to address them and links them more closely to the options. The objectives were revised to provide a solid basis for measuring the progress achieved by Eurostars. Finally, the comparison of options in terms of effectiveness, efficiency and coherence was improved and the views of stakeholders better spelled out.

3. LEGAL ELEMENTS OF THE PROPOSAL

3.1. Legal basis

The proposal for Eurostars-2 is based on Article 185 of the TFEU, which states that the Union may make provision for the participation of the European Union in research and development programmes undertaken by several Member States, including participation in the structures created for the execution of those programmes.

The Horizon 2020 Communication[15] indicates that: 'partnership approaches on the basis of Articles 185 and 187 of the Treaty will also be continued'.

Article 20(2)(b) of the proposal for a Regulation establishing Horizon 2020[16] lists a number of criteria for how public-public partnerships are to be identified. Eurostars complies with those criteria: the 'Budapest document' on Eurostars-2 endorsed by all Eureka countries provides (a) a clear definition of the objectives to be pursued in conformity with the objectives of Horizon 2020 and broader Union policy objectives indicated in section 1.1, (b) the financial commitments of the participating countries, (c) the added value of action at Union level as

[15] COM(2011) 808 final of 30.11.2011.
[16] COM(2011) 809 final of 30.11.2011.

mentioned in section 3.2 and (d) the critical mass, with regard to the size and the number of national programmes involved.

3.2. Subsidiarity and proportionality principle

The subsidiarity principle applies as the proposal does not fall under the exclusive competence of the European Union. Subsidiarity is safeguarded by basing the proposal on Article 185 TFEU, which explicitly provides for the participation of the Union in research programmes undertaken by several Member States, whereby all operational aspects are implemented where possible at national level, while ensuring a coherent approach at the European level of the joint programme.

The objectives of the proposal cannot be sufficiently achieved by the Member States alone: the national research programmes supporting research-performing SMEs lack interoperability and compatibility and only very few national programme cycles are synchronised and use a joint international peer review.

Eurostars-2 respects the proportionality principle as the Member States themselves will be responsible for implementation and all operational aspects. The role of the EU is limited to providing incentives for improved coordination of participating programmes and harmonisation of rules and regulations, to the benefit of SMEs interested in transnational R&D activities, and also ensuring synergy with relevant complementary activities in Horizon 2020.

The added value of the Union action is significant as the EU involvement will enable the creation of a new legal framework where EU and national funding can be pooled under a common strategy to stimulate transnational collaborative R&D projects initiated and led by research-performing SMEs. The pooling of resources from national programmes and from the EU enables a critical mass to be achieved that can better address the challenges faced by research-performing SMEs. This would otherwise not be feasible using the existing structures in Horizon 2020 and within national programmes. The Union’s contribution shall be equal to one third of thecontributions of the participating states.

In particular, the proposed organisational structure keeps the administrative burden to a minimum, by having the main administrative work carried out through national agencies under the supervision and overall responsibility of the common legal structure identified for this purpose.

3.3. Choice of instrument

The proposed instrument is a Decision by the European Parliament and Council based on Article 185 of the TFEU.

3.4. Derogations from the Horizon 2020 Rules for Participation

The proposal allows derogations from a number of Articles, namely Article 14(5) on the verification of the financial capacity of applicant. Article 16(1) on grant agreements, Article 19 (1), (5) to (7) on the implementation of the action, Articles 22 to 28 on funding rules of the action. Those derogations result from the breakdown of responsibilities between the ESE and the national funding agencies: the ESE is in charge of receiving, distributing and monitoring the European Union contribution channelled to the beneficiaries through the national funding agencies.

The main reason for it is that SMEs, the specific target group of Eurostars-2, in certain cases can feel more at ease with the well-known rules of the participating national funding programmes than EU rules. The administrative and legal barriers to the participation of these SMEs in transnational research and innovation activities is therefore lowered by the

application of national funding rules and the provision of the Union's financial contribution and the corresponding national public support through one grant agreement.

The proposal provides appropriate safeguards to guarantee respect for the principles of equal treatment and transparency by the dedicated implementation structure when providing financial support to third parties, and in order to protect the financial interests of the Union. It also provides for the inclusion of detailed provisions to this end in an agreement to be concluded between the Union and the dedicated implementation structure, including strong pressure for the rapid progressive harmonisation and alignment of national programme rules.

4. BUDGETARY IMPLICATION

The Legislative Financial Statement presented with this decision sets out the indicative budgetary implications. The maximum Union's financial contribution, including EFTA appropriations, to Eurostars-2 shall be EUR 287 million in current prices for the duration of the Horizon 2020 Framework Programme. The contributions will be made from the following objective[17] under Part II 'Industrial Leadership'

- 'Innovation in SMEs'

The provisions of the Decision and of the delegation agreement to be concluded between the Commission and the dedicated implementation structure must ensure that the EU financial interests are protected.

Legislative Financial Statement presented with this Decision sets out the indicative budgetary implications.

5. OPTIONAL ELEMENTS

5.1. Simplification

The proposal provides for the simplification of administrative procedures for public authorities (EU or national) and for private parties.

In particular, recipients of the research funding from the new joint programme will benefit from a single contracting and payment scheme using familiar national rules without any need for separate reporting with regard to the Union's contribution.

The EU will deal directly with the dedicated implementation structure of Eurostars-2, which will be in charge of allocating, monitoring and reporting on the use of the Union's contribution.

5.2. Review/revision/sunset clause

The proposal includes a review clause for a mid-term review after three years. The overall duration will be limited to seven years.

5.3. European Economic Area

The proposed act concerns an EEA matter and should therefore extend to the European Economic Area.

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[17] The amount is indicative and will depend on the final amount for the DG RTD under the above mentioned challenge /theme.

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on the participation of the Union in a Research and Development Programme jointly undertaken by several Member States aimed at supporting research performing small and medium-sized enterprises

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 185 and the second paragraph of Article 188 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national Parliaments,

Having regard to the opinion of the European Economic and Social Committee[18],

Acting in accordance with the ordinary legislative procedure,

Whereas:

(1) In its Communication Europe 2020 A Strategy for smart, sustainable and inclusive growth[19] the Commission underscores the need to develop favourable conditions for investment in knowledge and innovation so as to achieve smart, sustainable and inclusive growth in the Union. Both European Parliament and Council have endorsed this strategy.

(2) Horizon 2020 – The Framework Programme for Research and Innovation (2014-2020) established by Regulation (EU) No …/2013 of the European Parliament and of the Council of … 2013[20] (hereinafter "Horizon 2020 Framework Programme") aims at achieving a greater impact on research and innovation by contributing to the strengthening of public-public partnerships, including through Union participation in programmes undertaken by several Member States in accordance with Article 185 of the Treaty.

(3) By 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[21], the Community decided to make a financial contribution to Eurostars, a Joint Programme undertaken by all Member

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18 OJ C, p. .[EESC opinion]

19 COM(2010)2020 final of 3 March 2010

20 OJ … [H2020 FP]

21 OJ L 201, 30.7.2008, p. 58.

States and five participating countries in the framework of Eureka, an intergovernmental initiative established in 1985 with the objective of promoting cooperation in industrial research.

(4) In April 2012, the Commission communicated to the European Parliament and the Council a report on the Interim evaluation of Eurostars Joint Programme[22] carried out by a Group of Independent Experts two years after the beginning of the programme. The overall opinion of the experts was that the Eurostars programme meets its objectives, adds value to European research-performing small and medium-sized enterprises (hereinafter 'SMEs') and should be continued after 2013. A number of recommendations for improvement were made, mainly addressing the need of further integration of national programmes and improvements in the operational performance in order to reach shorter time to contract and more transparency in the procedures.

(5) The definition of SME provided for in Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises[23] should apply.

(6) According to Council Decision 2013/…/EU of … 2013 establishing the Specific Programme implementing Horizon 2020 - The Framework Programme for Research and Innovation (2014-2020)[24], support may be provided to an action building on the Eurostars Joint programme and reorienting it along the lines stated in its interim evaluation.

(7) The Eurostars-2 Programme (hereinafter "Eurostars-2"), aligned with the Europe 2020 strategy, the related Flagship initiative 'Innovation Union'[25] and 'A Reinforced European Research Area Partnership for Excellence and Growth'[26] will aim at supporting research performing SMEs by co-financing their market oriented research projects in any field. As such, and in combination with the activities under the 'Leading and Enabling Technology' objective set out in the Horizon 2020 Framework Programme, it will contribute to the goals of the Industrial Leadership part of that programme to speed-up development of the technologies and innovations that will underpin tomorrow's businesses and help innovative European SMEs to grow into world-leading companies. As part of the improvements from the previous Eurostars programme, Eurostars-2 should head towards shorter time to grant, stronger integration and lean, transparent and more efficient administration to the ultimate benefit of research performing SMEs.

(8) The Eureka Ministerial Conference on 22 June 2012 in Budapest endorsed a strategic vision for Eurostars-2 (hereafter "Budapest Document"). The ministers committed to support the continuation of the Eurostars Joint programme after its termination in 2013 for the period covered by the Horizon 2020 Framework Programme. This will consist of a reinforced partnership addressing the recommendations of the interim evaluation of the Eurostars Joint Programme. The Budapest Document sets out two main objectives for Eurostars-2. Firstly, a structural-oriented objective to deepen the

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22 COM(2011) 186 of 8 April 2011.
23 OJ L 124, 20.5.2003, p. 36.
24 OJ … [H2020 SP]
25 COM(2010) 546 final of 6 October 2010.
26 COM(2012) 392 final of 17 July 2012.

synchronisation and alignment of the national research programmes in the field of funding, which is a central element towards the realisation of the European Research Area by the member countries. Secondly a content-related objective to support research performing SMEs engaging in transnational research and innovation projects. The Budapest Document invites the Union to participate in the programme.

(9) The participating states intend to contribute to the implementation of Eurostars-2 during the period covered by Eurostars-2 (2014-2024).

(10) A ceiling should be established for the Union's financial contribution to Eurostars-2 for the duration of the Horizon 2020 Framework Programme. Within that ceiling, the Union's contribution should be equal to one third of the contribution of the participating states in order to ensure a critical mass necessary to satisfy the demand from projects deserving financial support, to achieve a high leverage effect and ensure stronger integration of national research programmes of the participating states.

(11) In line with the objectives of the Horizon2020 Framework Programme, any Member State and any country associated to the Horizon 2020 Framework Programme should be entitled to participate in Eurostars-2.

(12) The Union's financial contribution should be subject to formal commitments from the participating states to contribute to the implementation of Eurostars-2 and to the fulfilment of those commitments. Financial support under Eurostars-2 should mainly take the form of grants to projects selected following calls for proposals launched under the Eurostars-2. In order to meet the objectives of Eurostars-2, the participating states shall ensure sufficient financial contribution to fund a reasonable number of proposals selected through each call.

(13) The joint implementation of Eurostars-2 requires an implementation structure. The participating states have agreed on designating the Eureka Secretariat (hereinafter "ESE") as the implementation structure for Eurostars-2. ESE is a non-profit international association under Belgian law and, since 2008, is responsible for the implementation of Eurostars. ESE's role goes beyond the implementation of Eurostars, being at the same time the secretariat of the Eureka initiative, with its own governance linked to the managing of Eureka projects outside of Eurostars. The Union, represented by the Commission, is a founding member of the Eureka initiative and full member of the Eureka Secretariat association.

(14) In order to achieve the objectives of Eurostars-2, ESE should be in charge of the organisation of the calls for proposals, the verification of the eligibility criteria, the peer-review evaluation and the selection and the monitoring of projects as well as the allocation of the Union contribution. The evaluation of proposals should be performed centrally by independent external experts under the responsibility of ESE following calls for proposals. The projects' ranking list should be binding for the participating states as regards the allocation of funding from the Union's financial contribution and from contribution from participating states.

(15) Overall the programme should demonstrate a clear progress towards further alignment and synchronisation of the national research and innovation programmes as a truly Joint Programme featuring stronger scientific, management and financial synchronisation. Stronger scientific integration should be achieved through the common definition and implementation of activities and should ensure the excellence and the high impact of the projects selected. Management integration should ensure further improvement of operational excellence and accountability for the programme.

Stronger financial integration should be based on overall and yearly adequate financial contribution by the Eurostars-2 Participating States and a high degree of national synchronisation. This should be achieved through a progressive harmonisation of national funding rules.

(16) The Union's financial contribution should be managed in accordance with the principle of sound financial management and with the rules on indirect management set out in Regulation (EU, Euratom) No 966/2012 of 25 October 2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union[27] and Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation (EU, Euratom) No 966/2012[28].

(17) In order to protect the Union's financial interests, the Commission should have the right to reduce, suspend or terminate the Union's financial contribution if Eurostars-2 is implemented inadequately, partially or late, or if the participating states do not contribute, or contribute partially or late, to the financing of Eurostars-2. Those rights should be provided for in the delegation agreement to be concluded between the Union and the ESE.

(18) Participation in indirect actions funded by Eurostars-2 is subject to Regulation (EU) No …/2013 of the European Parliament and of the Council of …2013 laying down the rules for the participation and dissemination in 'Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020)[29]. However, due to specific operating needs of Eurostars-2 it is necessary to provide for derogations from that Regulation in accordance with Article 1(3) of that Regulation [Rules for the participation and dissemination in Horizon 2020].

(19) In order to facilitate the participation of SMEs which are more used to national channels and which would otherwise carry out research activities only within their national boundaries, the Eurostars-2 financial contribution should be provided in accordance with the well-known rules of their national programmes and implemented through a funding agreement directly administered by the national authorities, combining Union funding with the corresponding national funding. Derogation should therefore be made from Article 14(5), Articles 16(1), 19[(1), (5) to (7)], 22 to 28 of Regulation (EU) No … [Rules for the participation and dissemination in Horizon 2020].

(20) Audits of recipients of Union funds provided under Eurostars-2 should be carried out in accordance with Regulation (EU) No …/2013 of the European Parliament and of the Council of … 2013 [the Horizon 2020 Framework Programme].

(21) The Union's financial interests should be protected through proportionate measures throughout the expenditure cycle, including the prevention, detection and investigation of irregularities, the recovery of funds lost, wrongly paid or incorrectly used and, where appropriate, administrative and financial penalties in accordance with Regulation (EU, Euratom) No 966/2012.

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27 OJ L 298, 26.10.2012, p.1

28 OJ L362, 31.12.2012, p.1.

29 OJ … [H2020 RfP]

(22) The Commission should conduct an interim evaluation assessing in particular the quality and efficiency of Eurostars-2 and progress towards the objectives set, as well as a final evaluation and prepare a report on those evaluations.

(23) Upon request from the Commission, ESE and the participating states should submit any information the Commission needs to include in the reports on the evaluation of Eurostars-2.

(24) Since the objectives of this Decision, namely to support transnational research activities performed by research-intensive SMEs and to contribute to the integration, alignment and synchronisation of national research funding programmes cannot be sufficiently achieved by the Member States alone due to lack of transnational dimension and of complementarity and interoperability of national programmes and can therefore, by reason of scale and impact of the action, be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Decision does not go beyond what is necessary in order to achieve those objectives,

HAVE ADOPTED THIS DECISION:

Article 1

Subject matter

This Decision lays down rules on the participation of the Union in the second Research and Development Programme jointly undertaken by several Member States aimed at supporting research performing small and medium-sized enterprises (SME) (hereinafter "Eurostars-2") and the conditions for its participation.

Article 2

Definitions

For the purpose of this Decision the following definitions apply:

(1) "SME" mean micro-, small- and medium-sized enterprises, as defined in Commission Recommendation 2003/361/EC in the version of 6 May 2003;

(2) "research performing SME" is an SME which reinvests at least 10% of its turnover to research and development activities or dedicates at least 10% full-time equivalents to research and development activities.

Article 3

Objectives

Eurostars-2 shall pursue the following objectives:

(1) promote research activities that comply with the following conditions:

  (a) the activities are carried out by transnational collaboration of research-performing SMEs among themselves or including other actors of the innovation chain (e.g. universities, research organisations)

  (b) results of activities are expected to be introduced into the market within two years of the completion of an activity

(2) increase the accessibility, efficiency and efficacy of public funding for SMEs in Europe by aligning, harmonising and synchronising the national funding mechanisms of participating states

(3) promote the participation of SMEs without previous experience in transnational research.

Article 4

Participation in Eurostars-2

1. The Union shall participate in Eurostars-2 jointly undertaken by Belgium, Bulgaria, the Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and the United Kingdom as well as Iceland, Israel, Norway, Switzerland and Turkey (hereinafter "participating states"), in accordance with the conditions set out in this Decision.

2. Any other Member State and any other country associated to the Horizon 2020 –The Framework Programme for Research and Innovation (2014-2020) established by Regulation (EU) No …/2013 … (hereinafter "Horizon 2020 Framework Programme") may participate in Eurostars-2 provided it fulfils the condition set out in Article 6(1)(c) of this Decision. Those Member States and associated countries that fulfil that condition shall be regarded as participating states for the purposes of this Decision.

Article 5

Union's financial contribution

1. The maximum Union's financial contribution, including EFTA appropriations, to Eurostars-2 shall be EUR 287 million[30]. The contribution shall be paid from the appropriations in the general budget of the Union allocated to the relevant parts of the Specific Programme implementing the Horizon 2020 Framework Programme, established by Decision … /2013/EU in accordance with Article 58(1)(c)(vi), and Articles 60 and 61 of Regulation (EU, Euratom) No 966/2012.

2. Without exceeding the maximum amount set out in paragraph 1, the Union's contribution shall be equal to one third of the contributions of the participating states referred to in Article 7 (1)(a). It shall cover administrative and operational costs.

3. A maximum of 2% of the Union's financial contribution may be used to contribute to the administrative costs of Eurostars-2. Participating states shall cover any other administrative costs necessary for the implementation of Eurostars-2.

[30] The amount is indicative and will depend on the final agreed amount for DG Research and Innovation for the objective "Innovation in SMEs" under Part2-Industrial Leadership, which will be finally approved by the Budgetary Authority in the final version of the legislative and financial statement.

Article 6

Conditions for the Union's financial contribution

1. The Union's financial contribution shall be conditional upon the following:

   (a) the demonstration by the participating states that they have set up the Eurostars-2 in accordance with the objectives laid down in Article 3;

   (b) the designation by the participating states or organisations designated by the participating states, of the Eureka Secretariat AISBL (hereafter “ESE”), as the structure responsible for implementing Eurostars-2 and for receiving, allocating and monitoring the Union's financial contribution;

   (c) the commitment by each participating state to contribute to the financing of Eurostars-2;

   (d) the demonstration by ESE of its capacity to implement Eurostars-2, including receiving, allocating and monitoring the Union financial contribution, in the framework of indirect management of the Union budget in accordance with Articles 58, 60 and 61 of Regulation (EU, Euratom) No 966/2012;

   (e) the establishment of a governance model for the Eurostars-2 in accordance with Annex II.

2. During the implementation of Eurostars-2, the Union’s contribution shall also be conditional upon:

   (a) the implementation by the ESE of Eurostars-2 objectives set out in Article 3 and activities set out in Annex I in accordance with the rules for the participation and dissemination referred to in Article 8; (b) the maintenance of an appropriate and efficient governance model in accordance with Annex II;

   (c) the compliance by ESE with the reporting requirements set out in Article 60 (5) of Regulation (EU, Euratom) No 966/2012;

   (d) the effective payment by the participating states of the financial contribution to all participants to Eurostars-2 projects selected for funding following the calls for proposals launched under Eurostars-2, fulfilling the commitments referred to in point (c) of paragraph 1;

   (e) allocation of the funding from the national budgets for Eurostars-2 projects and the Union's financial contribution in accordance with the ranking lists of the projects;

   (f) the demonstration of a clear progress in the scientific, managerial and financial integration by the establishment of minimum operational performance targets and milestones for the implementation of Eurostars-2.

Article 7

Contribution from participating states

1. Contribution from the participating states shall consist of the following financial contributions:

   (a) the co-financing of the selected Eurostars-2 projects, mainly through grants;

(b) financial contribution to the administrative costs of Eurostars-2 not covered by the Union contribution as set out in Article 5 (3).

2. Each participating state shall designate a NFB to administer financial support to the national participants in Eurostars-2 in accordance with Article 8.

Article 8

Rules for participation and dissemination

1. For the purpose of Regulation (EU) No … [Rules for the participation and dissemination in Horizon 2020] the ESE shall be considered a funding body.

2. By way of derogation from Article 14(5) of Regulation (EU) No … [Rules for the participation and dissemination in Horizon 2020], the ESE shall verify the financial capacity of all applicants.

3. By way of derogation from Article 16(1) of Regulation (EU) No … [Rules for the participation and dissemination in Horizon 2020], the grant agreements with the beneficiaries of the indirect action shall be signed by the NFBs concerned.

4. By way of derogation from Articles 19(1), (5) to (7) and 22 to 28 of Regulation (EU) No … [Rules for the participation and dissemination in Horizon 2020], the funding rules of the participating national programmes shall apply to the grants administered by the NFBs.

Article 9

Implementation of Eurostars-2

1. Eurostars-2 shall be implemented on the basis of annual work plans.

2. Eurostars-2 shall provide financial support mainly in the form of grants to participants following calls for proposals.

Article 10

Agreements between the Union and ESE

1. Subject to a positive ex-ante assessment of ESE in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012, the Commission, on behalf of the Union, shall conclude a delegation agreement and annual transfer of funds agreements with the ESE.

2. The delegation agreement referred to in paragraph 1 shall be concluded in accordance to Articles 58(3), 60 and 61 of Regulation (EU, Euratom) No 966/2012 and in Article 40 of Delegated Regulation (EU) No 1268/2012. It shall also set out the following:

(a) the requirements for ESE regarding the performance indicators set out in Annex II to Decision (EU) No … [the Specific Programme implementing the Horizon 2020 Framework Programme];

(b) the requirements for ESE's contribution to the monitoring referred to in Annex III to Decision (EU) No … [the Specific Programme implementing the Horizon 2020 Framework Programme];

(c) the specific performance indicators related to the functioning of ESE;

(d) the requirements for ESE regarding the provision of information on administrative costs and of detailed figures concerning the implementation of Eurostars-2;

(e) the arrangements regarding provision of data necessary to ensure that the Commission is able to meet its dissemination and reporting obligations;

(f) the obligation for ESE to sign Bilateral Agreements with the NFBs before any transfer of Union's financial contribution, laying down the minimum operational performance targets and milestones for the implementation of Eurostars-2.

Article 11

Termination, reduction or suspension of the Union's financial contribution

1. If Eurostars-2 is not implemented or is implemented inadequately, partially or late, the Commission may terminate, proportionally reduce, or suspend the Union financial contribution in line with the actual implementation of Eurostars-2.

2. If the participating states do not contribute, contribute partially or late to the financing of Eurostars-2, the Commission may terminate, proportionally reduce, or suspend the Union financial contribution, taking into account the amount of funding allocated by the participating states to implement Eurostars-2.

Article 12

Ex-post audits

1. ESE shall ensure that ex-post audits of expenditure on indirect actions are carried out by the respective NFBs in accordance with Article 23 of Regulation (EU) No … [the Horizon 2020 Framework Programme].

2. The Commission may decide to carry out the audits referred to in paragraph 1 itself.

Article 13

Protection of the financial interests of the Union

1. The Commission shall take appropriate measures ensuring that, when actions financed under this Decision are implemented, the financial interests of the Union are protected by the application of preventive measures against fraud, corruption and any other illegal activities, by effective checks and, if irregularities are detected, by the recovery of the amounts wrongly paid and, where appropriate, by effective, proportionate and dissuasive administrative and financial penalties.

2. ESE shall grant Commission staff and other persons authorised by it, as well as the Court of Auditors, access to its sites and premises and to all the information, including information in electronic format, needed in order to conduct their audits.

3. The European Anti-fraud Office (OLAF) may carry out investigations, including on-the-spot checks and inspections, in accordance with the provisions and procedures

laid down in Council Regulation (Euratom, EC) No 2185/96[31] and Regulation (EC) No 1073/1999 of the European Parliament and of the Council[32] with a view to establishing whether there has been fraud, corruption or any other illegal activity affecting the financial interests of the Union in connection with an agreement or decision or a contract funded under this Decision.

4. Contracts, grant agreements and grant decisions, resulting from the implementation of this Decision shall contain provisions expressly empowering the Commission, the Court of Auditors, OLAF and the ESE to conduct such audits and investigations, according to their respective competences.

5. In implementing Eurostars-2, the participating states shall take the legislative, regulatory, administrative or other measures necessary for protecting the Union's financial interests, in particular to ensure full recovery of any amounts due to the Union in accordance with Regulation (EU, Euratom) No 966/2012 and Delegated Regulation (EU) No 1268/2012.

Article 14

Communication of information

1. At the request of the Commission, ESE shall send any information necessary for the preparation of the reports referred to in Article 15.

2. The participating states shall submit to the Commission, through ESE, any information requested by the European Parliament, the Council or the Court of Auditors concerning the financial management of Eurostars-2.

3. The Commission shall include the information referred to in paragraph 2 in the reports referred to in Article 15.

Article 15

Evaluation

1. By 31 December 2017 the Commission shall conduct an interim evaluation of Eurostars-2. The Commission shall prepare a report on that evaluation which includes conclusions and observations by the Commission. The Commission shall send that report to the European Parliament and to the Council by 30 June 2018.

2. At the end of the Union's participation in the Eurostars-2 but no later than 31 December 2022, the Commission shall conduct a final evaluation of Eurostars-2. The Commission shall prepare a report on that evaluation which includes results of that evaluation. The Commission shall send that report to the European Parliament and the Council.

Article 16

Entry into force

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31 OJ L 292, 15.11.1996, p. 2.

32 OJ L 136, 31.5.1999, p. 1.

This Decision shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

Article 17

Addressees

This Decision is addressed to the Member States.

Done at Brussels,

For the European Parliament	*For the Council*
The President	*The President*

ANNEX I

IMPLEMENTATION

1. ESE shall organise continuously open calls for proposals with cut-off dates for the award of financial support to indirect actions.

2. Applicants shall submit project proposals to ESE as single entry point.

3. After the closure of a call for proposals, a central eligibility check shall be carried out by ESE on the basis of the eligibility criteria set out in the annual work plan. No different or further eligibility criteria may be added by the Participating States.

4. The ESE shall verify the financial capacity of the participants according to common, clear and transparent rules.

5. Eligible proposals shall be evaluated centrally and ranked by a group of external independent experts in accordance with the criteria set out in Article 14(1) of Regulation (EU) No … [Rules for the participation and dissemination in Horizon 2020], on the basis of transparent procedures.

6. The ESE shall provide an evaluation review procedure in accordance with Article 15 of Regulation (EU) No … [the Rules for Participation and dissemination in Horizon 2020].

7. The ranking list, approved as a whole by the Eurostars-2 high level group (HLG) referred to in Annex II, shall be binding for the allocation of funding from the national budgets for Eurostars-2 projects.

8. Once the ranking list is approved, each Participating State shall finance its national participants in those projects selected for funding through the designated National Funding Body, making all possible efforts to ensure that the top-50 ranked projects and at least 50 to 75% of the projects above thresholds are funded. The financial contribution to the participants shall be calculated according to the funding rules of the Eurostars-2 Participating State's national programme. The Union's financial contribution shall be transferred by ESE to the NFBs provided that the NFBs have paid their financial contribution to the projects.

9. All eligible participants in project selected centrally shall be funded. The granting of financial support by the NFBs to project participants selected centrally shall be subject to the principles of equal treatment, transparency and co-funding.

10. ESE shall be responsible for evaluating proposals, informing NFBs, coordinating the synchronisation process, monitoring projects through project reporting and audits carried out by NFBs, and reporting to the Commission ensuring a short time to grant. It shall also take appropriate measures to encourage recognition of the Union's contribution to the Eurostars-2 programme, both to the programme itself and to individual projects. It shall promote appropriate visibility for such contribution through the use of the Horizon 2020 logo in all published material, including printed and electronic publications, related to Eurostars-2.

11. ESE shall conclude Eurostars-2 Bilateral Agreements with the NFBs. The Eurostars-2 Bilateral Agreements shall set out the responsibilities of the contracting parties in accordance with the Eurostars-2 rules, objectives and implementation modalities. The Eurostars-2 Bilateral Agreements shall include the rules governing the transfer of the Union's contribution and the minimum operational targets and national

progressive milestones for further integration and synchronisation of national programmes, including a shorter time-to-grant in accordance with the [Rules for Participation and][the Financial Regulation]. These targets and milestones shall be agreed by the Eurostars-2 HLG in consultation with the European Commission. The signature of the Eurostars-2 Bilateral Agreement and the compliance with the operational targets and milestones shall be a pre-condition for NFBs to receive the Union's contribution.

12. Networking activities and exchange of good practices shall also be organised amongst the participating states in order to favour stronger integration at scientific, managerial and financial level.

13. Other activities shall also include brokerage, programme promotion and networking activities with other stakeholders (investors, research and innovation providers, intermediaries) mainly to widen participation from beneficiaries in all Participating States and to involve SMEs with no prior experience in transnational research projects.

ANNEX II

GOVERNANCE OF EUROSTARS-2

1. The ESE shall manage the Eurostars-2 Programme. The ESE is an international non-profit association established under Belgian law (Aisbl) in 1997 by the EUREKA countries and by the European Union represented by the Commission.

The Head of ESE as the legal representative of ESE shall be in charge of implementing the Eurostars-2 programme by the following:

(a) the preparation of the annual budget for the calls, central organisation of joint calls for proposals and reception of the proposals as single entry point; the central organisation of the eligibility and evaluation of proposals, according to common eligibility and evaluation criteria, central organisation of the selection of proposals for funding, and project monitoring and follow-up; the receipt, allocation and monitoring of the Union contribution;

(b) collecting the necessary information from the NFBs for the transfer the Union contribution;

(c) promotion of the Eurostars-2 Programme;

(d) reporting to the Eurostars-2 HLG and the Commission on Eurostars-2, including on progress towards further integration;

(e) informing the Eureka network about the Eurostars-2 activities;

(f) signing the delegation agreement with the Commission, the bilateral agreements with the NFBs and the contracts with the experts assessing the Eurostars-2 applications;

(g) adopting the Eurostars-2 annual work plan following the prior agreement of the Eurostars-2 HLG and of the Commission.

2. The Eurostars-2 HLG, composed of the national representatives in the EUREKA High Level Group of the Eurostars-2 Participating States, shall supervise operations of ESE on Eurostars-2 by the following:

(a) supervising the implementation of the Eurostars-2 Programme;

(b) appointing the members of the Eurostars-2 Advisory Group (hereinafter "EAG");

(c) approving the annual work plan;

(d) approving the ranking list of Eurostars-2 projects to be funded and taking the award decision.

The Union, represented by the Commission, shall have the status of observer in the Eurostars-2 HLG. The Commission shall be invited to participate to the meetings, shall receive all meeting documents and may take part in the discussion**.**

Any other EUREKA country not participating in the Eurostars-2 Programme shall have the right to send representatives to Eurostars-2 HLG meetings as observers.

3. The EAG shall be composed of EUREKA National Project Coordinators (persons in the national government or agency dealing with the operational level of the management of Eureka/Eurostars programme and in charge of the promotion of the Eurostars-2 Programme in the participating countries) from the participating countries. The Commission shall have the right to send representatives in the EAG meetings as observers. The EAG meetings shall be chaired by the ESE.

The EAG shall advise the ESE as well as the Eurostars-2 HLG on the arrangements for the implementation of Eurostars-2.

4. The NFB shall be in charge of the administration of financial support to the national participants.

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

1.2. Policy area(s) concerned in the ABM/ABB structure

1.3. Nature of the proposal/initiative

1.4. Objectives

1.5. Grounds for the proposal/initiative

1.6. Duration and financial impact

1.7. Management mode(s) envisaged

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

2.2. Management and control system

2.3. Measures to prevent fraud and irregularities

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

3.2. Estimated impact on expenditure

3.2.1. Summary of estimated impact on expenditure

3.2.2. Estimated impact on operational appropriations

3.2.3. Estimated impact on appropriations of an administrative nature

3.2.4. Compatibility with the current multiannual financial framework

3.2.5. Third-party contributions

3.3. Estimated impact on revenue

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Participation of the Union in a Research and Development Programme jointly undertaken by several Member States aimed at supporting research performing small and medium-sized enterprises.

1.2. Policy area(s) concerned in the ABM/ABB structure[33]

Research and Technological development:

HORIZON 2020 (H2020) — Industrial Leadership — Innovation in SMEs

1.3. Nature of the proposal/initiative

☐ The proposal/initiative relates to **a new action**

☐ The proposal/initiative relates to **a new action following a pilot project/preparatory action**[34]

☒ The proposal/initiative relates to **the extension of an existing action**

☐ The proposal/initiative relates to **an action redirected towards a new action**

1.4. Objectives

1.4.1. The Commission's multiannual strategic objective(s) targeted by the proposal/initiative

The overall objective of this legislative proposal, is to stimulate European economic growth and job creation by enhancing the competitiveness of research-performing small and medium size enterprises (SMEs), therefore contributing to the Europe 2020.

This will be achieved by**:**

(1) promoting market-oriented transnational research activities without thematic restrictions by research-performing SMEs leading to new or improved product, processes and services to the market;

(2) contributing to the completion of the ERA and to increase accessibility, efficiency and efficacy of public funding for research-performing SMEs in Europe by aligning, harmonising and synchronising the national funding mechanisms.

1.4.2. Specific objective(s) and ABM/ABB activity(ies) concerned

Specific objective No 3.1 of Innovation in Small and Medium Enterprises

The specific objective of the 'Innovation in Small and medium Size Enterprises' under the 'Industrial leadership' priority is to stimulate growth by means of increasing the level of innovation in SMEs, covering their different innovation needs over the whole innovation cycle for all types of innovations, thereby creating more fast growing, international active SMEs.

[33] ABM: Activity-Based Management — ABB: Activity-Based Budgeting.

[34] As referred to in Article 49(6)(a) or (b) of the Financial Regulation.

The Eurostars-2 Joint Programme will combine Union, national and private sources of funding to support market-oriented research, executed in transnational projects initiated and led by research-performing SMEs.

The objective associated with this specific objective is the establishment and operation of the Eurostars-2 with R&D projects led by research-performing SMEs as the main output.

ABM/ABB activity concerned: 08- Research and Innovation.

1.4.3. Expected result(s) and impact

Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.

The firms participating in Eurostars projects should be able to develop new products, processes and services and significantly strengthen their competitive position in the European and global marketplace.

The expected impact (counted three years after the end a Eurostars projects on average) is of M€10 increase in turnover for every 1M€ public fund, 25 jobs on average created for every M€1 of public fund and 3 new or improved products, processes or services on the market.

1.4.4. Indicators of results and impact

Specify the indicators for monitoring implementation of the proposal/initiative.

The indicators of results and impact set out in the Horizon 2020 — Framework Programme for Research and Innovation specific objective 'Innovation in SMEs' are monitored and annually reported by the dedicated management structure to the Commission.

The indicators of results and impact set out in the Horizon 2020 – Framework Programme for Research and Innovation specific objective "Innovation in SMEs" are monitored and annually reported by the dedicated management structure to the Commission.

The main indicator is the "Share of participating SMEs introducing innovations new to the company or the market, covering the period of the project plus 3 years". The target is 50%.

Other indicators possibly further detailed and complemented with in the Delegation Agreement between the Commission and the ESE, will refer to:

Investments and co-funding of the Eurostars Joint Programme by the participating states; Programme efficiency (in terms of time to evaluation results); Progress towards the integration of national programmes (including time to grant); Management integration (including a single reporting system and central evaluation in place), Financial integration (with top 50 ranking Eurostars projects always funded and standard financial viability check in place.

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term

Eurostars-2 is the follow up of Eurostars implemented along the lines of the interim evaluation recommendations.

The Union's contribution is needed for the establishment and operation of the Eurostars-2 in order to allow co-financing of the activities with the participating states. The Union's contribution will in particular be used to co-finance participants in selected Eurostars-2 projects following open calls for proposals.

1.5.2. Added value of EU involvement

The EU intervention will contribute to the continuation of a legal framework where EU and national funding are combined under a common strategy to stimulate transnational collaborative R&D and innovation projects for the benefit of research-performing SMEs. In particular, the participation of the EU will act as an incentive for the Eurostars participating states to further harmonise and align national programmes (rules and procedures), in line with the European Research Area and will create incentives for increased national and industrial investments in R&D and innovation in all the S&T fields, thus contributing to the EU2020 objectives and to the final benefit of the research-performing SMEs with high growth potential, which could become the large European firms of tomorrow.

1.5.3. Lessons learned from similar experiences in the past

An interim evaluation conducted in 2010 concluded that Eurostars is well aligned with the objectives of Europe 2020, complements well the opportunities offered to SMEs in FP7 for transnational cooperation and is attractive to the target group and for those reasons was worth considering its continuation beyond 2013.

The following recommendations for improvement were also made, i.a. the participating states and the Union to provide sufficient funds to finance the maximum of top ranking projects; to further streamline and harmonise the implementation processes and funding rules at the national level; to improve the quality of evaluations and to keep short time to contract as a priority.

These lessons have been taken fully into account in the design of Eurostars-2.

1.5.4. Compatibility and possible synergy with other appropriate instruments

Horizon2020 foresee a number of instruments supporting SMEs besides Eurostars-2: the SME instrument, the 'Access to finance instruments' and the possibility for SMEs to participate via the more traditional collaborative projects.

Eurostars-2 is different and at the same time complementary to the above mentioned initiatives.

While each of those instruments responds to particular needs of a certain type of SMEs, supporting them in different development stages of their research/business idea (high technology readiness for the SME instruments, need of loans/equity rather than grants for Financial Instruments), however none of them is specifically dedicated to transnational research performing SMEs and contribute to the integration and harmonisation of national programmes as Eurostars-2 does through the use of Article 185 TFEU.

1.6. Duration and financial impact

☒ Proposal/initiative of **limited duration**

- ☒ Proposal/initiative in effect from 01/01/2014 to 31/12/2020 for commitment appropriation and from 2014 up to 2024 for payment appropriations
- ☐ Financial impact from YYYY to YYYY

☐ Proposal/initiative of **unlimited duration**

- Implementation with a start-up period from YYYY to YYYY,
- followed by full-scale operation.

1.7. Management mode(s) envisaged[35]

☐ **Centralised direct management** by the Commission

☒ **Centralised indirect management** with the delegation of implementation tasks to:

- ☐ executive agencies
- ☐ bodies set up by the Communities[36]
- ☒ national public-sector bodies/bodies with public-service mission
- ☐ persons entrusted with the implementation of specific actions pursuant to Title V of the Treaty on European Union and identified in the relevant basic act within the meaning of Article 49 of the Financial Regulation

☐ **Shared management** with the Member States

☐ **Decentralised management** with third countries

☐ **Joint management** with international organisations ***(to be specified)***

If more than one management mode is indicated, please provide details in the 'Comments' section.

Comments

The financial contribution of the EU to the joint programme will be paid to the dedicated implementation structure, acting on behalf of participating states. The dedicated implementation structure will manage Eurostars-2 and receive, allocate and monitor the Union's financial contribution. The structure identified by the participating states is the EUREKA Secretariat. The governance structure is described in greater detail in Annex III of the Decision.

[35] Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: http://www.cc.cec/budg/man/budgmanag/budgmanag_en.html.

[36] As referred to in Article 185 of the Financial Regulation.

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

Specify frequency and conditions.

In accordance with the Horizon 2020 — Framework Programme for Research and Innovation, the implementation of the Eurostars-2 Programme is annually monitored and reported by the dedicated management structure to the Commission.

An interim evaluation will be conducted after three years of operation with the assistance of independent experts. A final evaluation will be conducted by external experts at the end of the programme. The Commission will submit the results to EP and Council.

2.2. Management and control system

2.2.1. Risk(s) identified

1) The key risks concern the capacity of the dedicated implementation structure to manage the Unions' budget contribution and the effective monitoring of the national agencies involved in the day to day operation of the programme

2) As with other programmes with high SMEs participation, there is a risk of possible financial losses due to the specific target group of Eurostars-2 (SMEs) and the indirect centralised management approach.

3) A third risk concerns the capacity of involved countries to effectively finance their contributions to the programme.

2.2.2. Control method(s) envisaged

Risk 1 is mitigated by the fact that the EU, represented by the Commission, is full member of the Eureka governance structure, supervising the dedicated implementation structure for all Eureka matters.

For mitigating risk 2, as mentioned in Article 13, in implementing the Eurostars-2 Programme, the participating states shall take the legislative, regulatory, administrative or other measures necessary for protecting the Union's financial interests. In particular, the participating states shall take the necessary measures to ensure full recovery of any amounts due to the Union.

Concerning risks 1 and 2, see also chapter 2.3.

Concerning risk 3, the Union's contribution will be transferred to the beneficiaries via the participating states' funding agencies only when proof will be provided of the effective payment of the national contribution to the beneficiary.

In addition, the Union's contribution cannot exceed one third of the contribution of the participating states and Union's support to administrative expenditures cannot exceed 2% of the overall Union's contribution.

Additional mitigation measures will be decided in the framework of the Delegation Agreement between the EU and the ESE and of the Bilateral Agreements between the ESE and the NFBs.

2.2.3. Costs and benefits of controls and probable non-compliance rate

The control system set up for implementation of the programme will be designed so as to provide reasonable assurance of achieving adequate management of the risks relating to the effectiveness and efficiency of the operations as well as the legality and regularity of the underlying transactions, taking due account the special nature of Eurostars-2 as public-public partnership. The control system must strike a balance between trust and control, taking into account administrative and other costs of controls at all levels, especially for participants, so that it can best contribute to achieving the objectives of the Horizon 2020 Framework Programme.

2.3. Measures to prevent fraud and irregularities

Specify existing or envisaged prevention and protection measures.

Article 6 of the Decision establishing EUROSTARS-2 states that the Union's contribution is conditional upon the compliance by ESE with the reporting requirements set out in Article 60(5) of Regulation (EU, Euratom) No 966/2012. According to Article 11, the Commission may terminate, reduce or suspend its contribution.

The delegation agreement to be concluded between the Commission and ESE in compliance with Article 61 of Regulation (EU, Euratom) No 966/2012 will provide for the Commission to supervise the activities of ESE, in particular by carrying out audits.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

– Existing budget lines

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	08 02 02 03 Increasing innovation in small and medium-sized enterprises (SMEs)	Diff./non-diff. [37]	from EFTA countries[38]	from candidate countries[39]	from third countries	within the meaning of Article 18(1)(aa) of the Financial Regulation
1A		Diff./non-diff.	YES	YES	YES	YES

[37] Diff. = Differentiated appropriations / Non-Diff. = Non-differentiated appropriations.

[38] EFTA: European Free Trade Association. .

[39] Candidate countries and, where applicable, potential candidate countries from the Western Balkans.

3.2. Estimated impact on expenditure

3.2.1. Summary of estimated impact on expenditure

EUR million (to three decimal places)

Heading of multiannual financial framework:	Number	Heading: 1a – Competitiveness for growth and jobs

DG: RTD			Year **2014**	Year **2015**	Year **2016**	Year **2017**	Year **2018**	Year **2019**	Year **2020**	Year **2021-2024**	**TOTAL**
• Operational appropriations											
Number of budget line:08 02 02 03	Commitments	(1)	33,500	35,000	38,000	41,000	43,000	46,000	50,500		**287,000**[40]
	Payments	(2)	4,000	28,000	30,000	32,000	34,000	36,000	**40,000**	**83,000**	**287,000**
Number of budget line	Commitments	(1a)									
	Payments	(2a)									
Appropriations of an administrative nature financed from the envelope of specific programmes[41]											
Number of budget line		(3)	**0,337**	**0,344**	**0,351**	**0,358**	**0,365**	**0,372**	**0,380**		**2,505**
TOTAL appropriations for DG RTD	Commitments	=1+1a +3	33,837	35,344	38,351	41,358	43,365	46,372	50,880		289,505
	Payments	=2+2a +3	4,337	28,344	30,351	32,358	34,365	36,372	40,380	83,000	289,505

[40] The amounts are subject to agreement on the financial programming for budget line 08 02 02 03.

[41] Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

• TOTAL operational appropriations	Commitments	(4)								
	Payments	(5)								
• TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)								
TOTAL appropriations under HEADING <….> of the multiannual financial framework	Commitments	=4+ 6								
	Payments	=5+ 6								

If more than one heading is affected by the proposal / initiative:

• TOTAL operational appropriations	Commitments	(4)								
	Payments	(5)								
• TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)								
TOTAL appropriations under HEADINGS 1 to 4 of the multiannual financial framework (Reference amount)	Commitments	=4+ 6								
	Payments	=5+ 6								

Heading of multiannual financial framework	**5**	'Administrative expenditure'

EUR million (to three decimal places)

		Year **2014**	Year **2014**	Year **2016**	Year **2017**	Year **2018**	Year **2019**	Year **2020**	**2021 – 2024**	**TOTAL**
DG: RTD										
• Human resources										
• Other administrative expenditure										
TOTAL DG RTD	Appropriations									

TOTAL appropriations for HEADING 5 of the multiannual financial framework	(Total commitments = Total payments)									

EUR million (to three decimal places)

		2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021 – 2024**	**TOTAL**
TOTAL appropriations under HEADINGS 1 to 5 of the multiannual financial framework	Commitments	33,837	35,344	38,351	41,358	43,365	46,372	**50,880**		**289,505**
	Payments	4,337	28,344	30,351	32,358	34,365	36,372	**40,380**	**83,000**	**289,505**

3.2.2. Estimated impact on operational appropriations

– ☐ The proposal/initiative does not require the use of operational appropriations

– ☒ The proposal/initiative requires the use of operational appropriations, as explained below:

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs ⇩			Year **2014**		Year **2015**		Year **2016**		Year **2017**		Year **2018**		Year **2019**		Year **2020**		**TOTAL**	
	Type	Average cost	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Total Number	Total Cost***
SPECIFIC OBJECTIVE No 1																		
- Output (* **)	R&D projects	0,56	180	100,700	205,000	114,800	240	134,600	275	154,400	325	181,600	375	209,800	450	252,100	2050	**1.148,000**
- Output																		
- Output																		
Subtotal for specific objective No 1																		
SPECIFIC OBJECTIVE No 2…																		
- Output																		
Subtotal for specific objective No 2																		
TOTAL COST			180	100,700	205	114,800	240	134,600	275	154,400	325	181,600	375	209,800	450	252,100	2050	1.148,000

* A share of EU contribution may be used to cover the administrative costs of the dedicated implementation structure, with a ceiling of 2% of the MEU contribution

** An average cost of EUR 1,4M€ is assumed for Eurostars projects with an average public co-funding rate of 40%. With a public funding of 0,56M€ per project, and an overall programme budget of 1148M€ (861M€ from Eurostars-2 participating states + 287M€ of EU contribution), about 2050 projects can be funded

*** The EU contribution to the total costs shall not exceed EUR 287 million.

3.2.3. Estimated impact on appropriations of an administrative nature

3.2.3.1. **Summary**

– ☐ The proposal/initiative does not require the use of appropriations of an administrative nature

– ☒ The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:

EUR million (to three decimal places)

	Year **2014**	Year **2015**	Year **2016**	Year **2017**	Year **2018**	Year **2019**	Year **2020**
HEADING 5 of the multiannual financial framework							
Human resources							
Other administrative expenditure							
Subtotal HEADING 5 of the multiannual financial framework							
Outside HEADING 5[42] of the multiannual financial framework							
Human resources	0,337	0,344	0,351	0,358	0,365	0,372	**0,380**
Other expenditure of an administrative nature							
Subtotal outside HEADING 5 of the multiannual financial framework							
TOTAL	0,337	0,344	0,351	0,358	0,365	0,372	0,380

The administrative appropriations required will be met by the appropriations of the DG which are already assigned to management of the action and/or which have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

[42] Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

3.2.3.2. Estimated requirements of human resources

– ☐ The proposal/initiative does not require the use of human resources.

– ☒ The proposal/initiative requires the use of human resources, as explained below:

Estimate to be expressed in full time equivalent units

			2014	2015	2016	2017	2018	2019	2020
		• Establishment plan posts (officials and temporary agents)							
08 01 01 01 (Headquarters and Commission's Representation Offices)									
08 01 01 02 (Delegations)									
08 01 05 01 (Indirect research)			1.5	1.5	1.5	1.5	1.5	1.5	1.5
10 01 05 01 (Direct research)									
		• External personnel (in Full Time Equivalent unit: FTE)[43]							
08 01 02 01 (CA, INT, SNE from the 'global envelope')									
08 01 02 02 (CA, INT, JED, LA and SNE in the delegations)									
08 01 04 **yy**[44]	- at headquarters								
	- in delegations								
08 01 05 02 (CA, SNE, INT — Indirect research)			2	2	2	2	2	2	2
10 01 05 02 (CA, SNE, INT — Direct research)									
Other budget lines (specify)									
TOTAL			3.5	3.5	3.5	3.5	3.5	3.5	3.5

is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary staff	Participation in meetings of the governance body of Eurostars 2 taking place in the Eureka Secretariat premises (on average each body meets once every two months) Approval of the annual work plan Monitoring of implementation based on the yearly reports Coordination of the mid-term and final evaluations and preparation of the Commission reply to those evaluation in form of a Commission Report to be transmitted to Parliament and Council (1.5 official)
External staff	Support to preparation of delegation agreement with the DIS Preparation of annual financing decision and related payments Administrative support (2 CA)

[43] CA= Contract Agent; LA = Local Agent; SNE = Seconded National Expert; INT = agency staff ('Intérimaire'); JED= 'Jeune Expert en Délégation' (Young Experts in Delegations). .

[44] Sub-ceiling for external staff covered by operational appropriations (former 'BA' lines).

3.2.4. Compatibility with the current multiannual financial framework

– ☒ Proposal/initiative is compatible the current multiannual financial framework.

– ☐ Proposal/initiative will entail reprogramming of the relevant heading in the multiannual financial framework.

Explain what reprogramming is required, specifying the budget lines concerned and the corresponding amounts.

– ☐ Proposal/initiative requires application of the flexibility instrument or revision of the multiannual financial framework[45].

Explain what is required, specifying the headings and budget lines concerned and the corresponding amounts.

3.2.5. Third-party contributions

– The proposal/initiative does not provide for co-financing by third parties.

– The proposal/initiative provides for the co-financing estimated below:

Appropriations in EUR million (to three decimal places)

	Year **2014**	Year **2015**	Year **2016**	Year **2017**	Year **2018**	Year **2019**	Year **2020**	Total In Mill euro
Specify the co-financing body *: Member States*[46]	67,200	79,800	96,600	113,400	138,600	163,800	201,600	861,000
TOTAL appropriations co-financed	67,200	79,800	96,600	113,400	138,600	163,800	201,600	861,000

Co-financing details

The Union's contribution to operating costs (excluding the evaluation costs) of the Eurostars 2 Programme will be at maximum 2% of the overall Union's financial contribution.

The Union's contribution shall be equal to one third of the contributions of the participating states, but shall in any case not exceed 287 M€.

Moreover, the organisations participating in R&D projects selected through the Calls for Proposals launched by the Programme will co-finance these projects. These co-fundings are expected to amount to an average of 60% of the public funding received (but this differs amongst the participating states).

45 See points 19 and 24 of the Interinstitutional Agreement.

46 Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Croatia, Cyprus, Latvia, Lithuania, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Rumania, Slovenia, Finland and Sweden as well as Iceland, Israel, Norway, Switzerland and Turkey.

3.3. Estimated impact on revenue

– ☑ Proposal/initiative has no financial impact on revenue.

– ☐ Proposal/initiative has the following financial impact:

☐ on own resources

☐ on miscellaneous revenue