EUROPEAN UNIVERSITY ASSOCIATION

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EU FUNDING FOR UNIVERSITIES

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ONE YEAR OF EFSI: WHAT'S IN IT FOR UNIVERSITIES?

AN EUA REVIEW

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INTRODUCTION

In June 2015, the European Fund for Strategic Investments (EFSI) came into force. It is part of the Investment Plan for Europe, the major instrument to address the first key priority of the Juncker Commission on job creation, growth and investment.

The objectives are:

- to mobilise private investment;
- to ensure that investments reach the real economy;
- to improve the investment environment at European and national levels.

In order to establish EFSI, 2.2 billion euros were taken out of Horizon 2020 - the EU's current framework programme for research and innovation whose important beneficiaries are European universities. While EUA warned against this in various statements (see EUA policy brief, March 2015), the European Commission (EC) argued that EFSI would also benefit universities and research and thus tried to justify the cut to Horizon 2020. This was also translated into the EFSI regulation. One of the objectives is to "support research, development and innovation, in particular through support to academia including collaboration with industry" (EFSI regulation 2015/1017, art. 9.2 a-g).

Now, one year later, it is time to assess what EFSI has brought so far and whether it lives up to its promises. On 1 June 2016, the European Commission issued a communication to take stock of the Investment Plan for Europe and announce its next steps. Therefore, EUA looked into the projects[1] that have been funded by EFSI so far, and analysed to what extent they really benefit research and universities.

[1] There are two strands under EFSI, the infrastructure and innovation projects and the SME window and SME loan guarantee. The present analysis focuses on infrastructure and innovation projects as those are supported by the EU guarantee for which money was moved from H2020.

ABOUT EFSI

EFSI is supposed to support high-risk projects in order to foster investment in countries and sectors where job creation and growth are most needed (European Commission Vice-President Jyrki Kataïnen).

EFSI is supported via an EU guarantee of 16 billion euro, for which 8 billion euros are taken from the EU budget. In order to free up these 8 billion euros, money was taken away from running programmes. While the European Commission had first proposed to take 2.7 billion out of Horizon 2020, EUA together with the other European Research Area stakeholders and several national university associations successfully argued against it. Thanks to the European Parliament, the cut was reduced to 2.2 billion euros and funding for basic research was safeguarded when the EFSI regulation was adopted. However this compromise was only possible due to the use of available margins in the EU budget and is not sustainable in the long run. Furthermore, this still means lost competitive grant funding for universities and academic research in Europe.

WHAT EFSI FINANCED SO FAR

So far…

- 64 infrastructure and innovation projects have received 9.3 billion euros in financing from EFSI.[2]
- Each project has obtained between 11.7 million and 500 million euros in financing from EFSI; while most of the projects have received around 100 million euros.[3]
- 23% of EFSI financing has gone to research, development and innovation (RDI), but universities, it seems, have not benefitted.

The list of projects available on the European Investment Bank (EIB) website only includes information on 62 infrastructure and innovation projects. In many cases the information provided remains relatively basic and is limited to the project name, sector, country, date of approval, EFSI financing received and total cost. A more detailed description is available only for some projects and for most it is very difficult to find out about the actual beneficiaries (formal consortium partners). To date EUA has not received any evidence that universities have benefitted from EFSI funds.

Thus far, 77% of EFSI financing has gone to infrastructure development in different sectors and SME support. The remaining 23% went to RDI. According to an assessment by Bruegel, an independent Brussels-based think tank, the majority of EFSI projects are similar to those funded under the traditional EIB portfolio. This questions not only the additionality of EFSI as one of the main arguments of the European Commission to set up the fund, but also shows that the money taken out of Horizon 2020 is not largely flowing back to research as promised by the EC. While appropriate infrastructure is undoubtedly an important key condition also for academic research, public investment is needed for both and should not be taken away from one to fund the other.

[2] See EIB overview; the list of projects available on the EIB website only includes information on 62 of the 64 projects.

[3] EUA calculation based only on the 62 projects for which data on financing is publically available.

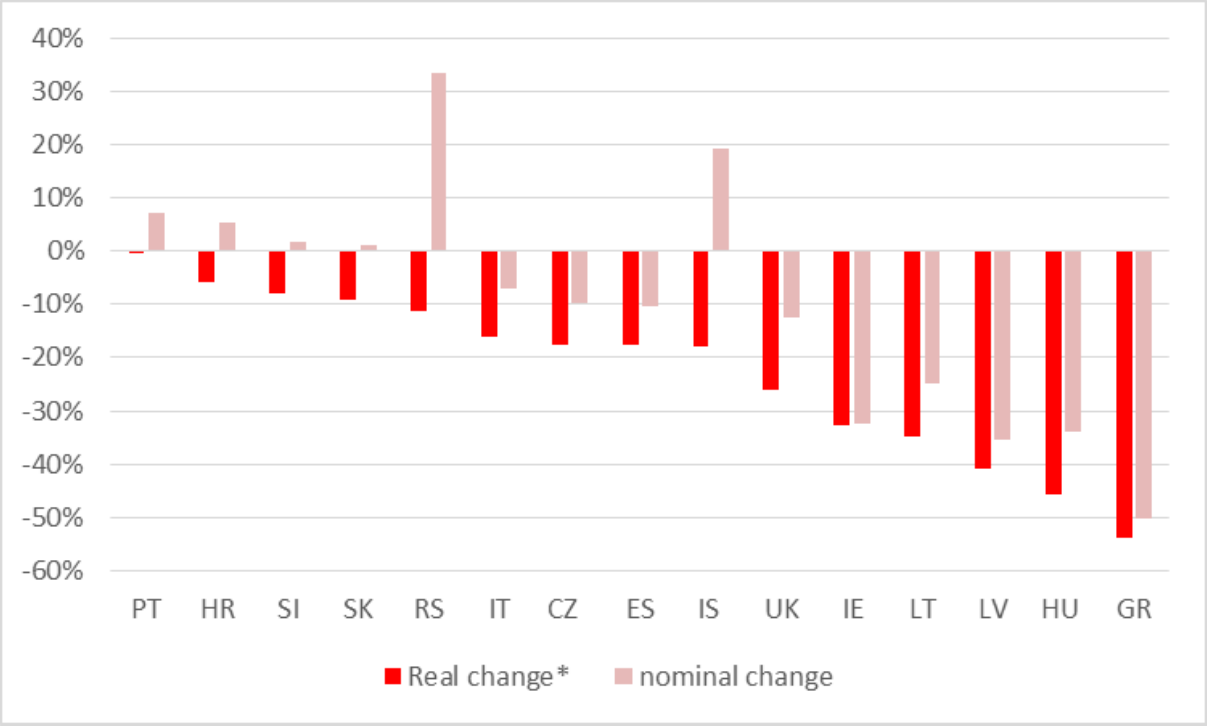
THREE REASONS EFSI IS NOT SUITED FOR UNIVERSITIES

1. Loan schemes and financial instruments are not suitable to fund university-based research

EFSI functions on the basis of a debt-financing mechanism. It does not offer subsidies (like Horizon 2020 competitive funding), but loans. The beneficiaries of EFSI support have to repay the amounts received. This is not suitable to fund academic research and has the potential to further endanger the financial sustainability of universities.

Following the financial and economic crises, public budgets are scarce and governments are ever more reluctant to provide the money needed, be it at the European or national level. This is a major problem for organisations like universities that fulfil important public responsibilities in education and research and depend to a large extent on public funding. As EUA's annual Public Funding Observatory shows, the level of public investment in universities has been going down in many countries across Europe since the start of the financial and economic crisis in 2008.

European countries with declining public funding to universities over 2008-2014



* real change = adjusted for inflation

Only a few countries maintain or increase their financial contribution to the sector and even some of those have begun to struggle recently. Loan schemes are not helping to address the investment gap in university education and research as they just shift the problem of scarce resources to the future and create debt that harms the financial sustainability of non-profit institutions like universities.

That loan schemes and financial instruments are not suitable to fund university-based research is also shown by the rather low participation in schemes like InnovFin. InnovFin is a joint initiative of the European Commission and the EIB under Horizon 2020 to facilitate access to risk finance for larger research and innovation projects emanating from universities, enterprises and public research organisations. Under this scheme, which is the success of the Risk Sharing Finance Facility under FP7, loans and guarantees from 25 million to 300 million euros are delivered by the EIB. According to the 2014 official beneficiary list, no university participated in the scheme. The EUA member consultation on Horizon 2020 shows that for the majority of universities such schemes are not suitable. Only a very limited number of institutions is able to work with them.

2. Universities in most European countries are not allowed to borrow money or can do so only under strict conditions

In most EU member states, borrowing money is restricted or even prohibited for universities, as shown in EUA's Autonomy Scorecard.

In seven systems across Europe universities are not allowed to borrow money at all (Greece; Hesse (DE); Hungary; Norway; Portugal; Switzerland; Turkey) and in 16 systems they can only do so under very strict conditions (Brandenburg (DE); Ireland; Italy; North-Rhine Westphalia (DE); Slovakia; Cyprus; France; Latvia; Lithuania; Luxemburg; Spain; Sweden; Iceland; Poland; United Kingdom).

3. The nature and the scale of projects considered for financing essentially excludes universities from the scheme

EFSI is targeted at large investment operations, primarily related to the development of infrastructure. To date, each infrastructure and innovation project has obtained between 11.7 and 500 million euros. Although not much is known about individual beneficiaries, the scale of the EFSI contributions indicates that the scheme privileges large consortia and investment platforms, where universities are not in the first line of direct beneficiaries.

While the overall objectives also include investment in education, research and development, the currently available list of projects leaves them little room.

Only one out of 62 projects has a link to education and the vast majority of projects with an RDI component seem to be linked to industry.

THREE REASONS UNIVERSITIES NEED SUFFICIENT, SUSTAINABLE AND SIMPLE FUNDING PROGRAMMES

Universities are among the most important actors of the European Research and the European Higher Education Areas. In order to deliver their contribution they need sustainable and sufficient public funding, be it at the national or the European level. EU funding programmes such as Horizon 2020 and Erasmus+ are important instruments supporting this development.

1. Horizon 2020 generates high added value

As shown by the impact assessment of the EU's framework programme for research and innovation, "investment in research and innovation has a powerful multiplier effect, especially at the European level. **Every euro invested by the EU research programme generates on average 13 euros in increased value added for the business sector**." This proves that grant funding for research and innovation as a sustainable investment is of high interest to the economy and enables universities as key actors and important programme beneficiaries to make their contribution to economic recovery.

2. Lower success rate of Horizon 2020 applications leads to inefficient high costs and lost scientific discoveries

The fact that the overall success rate for the first 100 calls under Horizon 2020 went down to 14%, in comparison to 20% under FP7, and that even highly-rated proposals had to be turned down is also linked to a lack of funding (see European Parliament study January 2016). Therefore EUA warns against any further diversion of money for research from grant schemes to loans and welcomes the Conclusions of the Competitiveness Council of 26 and 27 May 2016 where ministers stress that "within the framework of Horizon 2020 care should be taken to ensure that loan-based financing is not further expanded to the detriment of grant-based R&I funding."

3. Universities are involved in highly-innovative close-to-market projects through grant funding

This is, for example, underpinned by their participation in the Fast Track to Innovation (FTI) scheme which is a grant scheme under Horizon 2020 aimed to promote close-to-market innovation activities that is open to all types of participants. Launched in January 2015, the FTI pilot is the only fully bottom-up measure in Horizon 2020, which aims to reduce the time from idea to market. Although the FTI scheme was initially designed to increase the participation of SMEs and first-time industry applicants in Horizon 2020, it also attracts strong participation of universities and university hospitals.

Universities were partners in every second project selected for funding within the FTI pilot in 2015 (22 projects with university involvement out of 45 total projects, implemented in the agriculture, automobile, energy, environment, food, health, manufacturing and robotics fields) (see list of 2015 FTI projects).

EFSI has failed so far to bring universities and industry closer together within joint RDI projects, as originally promised.

CONCLUSION:

The analysis demonstrates that universities, supported by appropriate funding mechanisms, are active players in innovation that work together with other partners, such as industry and SMEs, to address societal needs and develop new technologies, and thus, help create viable business opportunities in Europe.

Horizon 2020 is a highly-successful programme but is in danger of losing attractiveness if not sufficiently and sustainably funded. Debt-financing mechanisms like EFSI, however, are not suitable to fund the type of collaborative research that is highly needed to address current societal challenges; foster sustainable economic recovery and find innovative solutions to the problems Europe is facing.

Collaboration, excellence and long-term impact need to remain cornerstones of EU funding programmes, demonstrating European added value, for future generations of young people in order to create new jobs and ensure European competitiveness and social prosperity.

THREE ACTIONS FOR THE EUROPEAN COMMISSION, THE EUROPEAN PARLIAMENT AND COUNCIL

1. Avoid taking any more money from Horizon 2020 and feed unused money from EFSI back to those parts that foster basic and collaborative research through grants.

2. Increase highly-successful grant programmes to fund academic research and education instead of further developing financial instruments and loan-schemes.

3. Continue the EFSI initiative only if it really delivers on the assumed leverage effect and proves to unleash private investment.

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