

European Structural and Investment Funds

The Royal Society

The Royal Society welcomes the opportunity to submit evidence to your inquiry into how the European Structural and Investment Funds are currently used to support economic development in Scotland. The Society is the National Academy of Science for the UK and the Commonwealth. It is a self-governing Fellowship of many of the world's most distinguished scientists working across a broad range of disciplines in academia and industry. The Society draws on the expertise of its Fellows and Foreign Members to provide independent and authoritative scientific advice to UK, European and international decision makers. It works closely with its sister Academy, the Royal Society of Edinburgh.

As your terms note, the European Structural and Investment Funds (ESIF) currently support economic development in Scotland. This includes support for research and development and innovation. This submission shares relevant evidence and analysis of the role of ESIF in supporting research, development and innovation in Scotland that may support your inquiry. It also highlights that this forms part of a diversity of funding that supports the Scottish research system.

The European Structural Investment Fund (ESIF) is targeted at building capacity in less economically developed regions and supports UK research and innovation activities to the tune of approximately €200m a year¹. The UK Government has stated that, post-Brexit, a UK Shared Prosperity Fund will be established in place of ESIF funding. In developing the UK Shared Prosperity Fund, the UK Government should review what worked well, and not so well about ESIF in the UK context and ensure that the new fund is easy to use and supports research and innovation as effectively as possible across regions of the UK. This Committee's inquiry could helpfully inform this process.

The Society has commissioned research jointly with the Academy of Medical Sciences, British Academy and Royal Academy of Engineering from Technopolis Group to better understand the role of EU funding in UK research and innovation². The report shows how EU funding is broken down across academic disciplines, institutions, industrial sectors, company sizes and regions of the UK, including those that are most and least reliant on it. It also shows how EU funding interacts with other funding sources in the UK. The main report is supplemented by 11 case studies, including one focused on the role of EU research and innovation funding in Scotland. These show in detail the role of EU funding in particular contexts and the role of specific EU funds that support research and innovation, including ESIF.

The UK receives funding from two of the three main funds under ESIF: the European Social Fund (ESF) and the European Regional Development Fund (ERDF). In addition, the UK receives funding from several 'territorial collaboration' projects under ERDF, a.k.a. INTERREG, which includes some research and innovation activities.

Looking specifically at the European Regional Development Fund (ERDF), the report shows that Scotland is expected to receive around €158m funding through this fund to support

¹ Technopolis (2017) *The role of EU funding in UK research and innovation*

² Technopolis (2017) *The role of EU funding in UK research and innovation*

research and innovation in the period 2004-2020. This equates to €29 per person, slightly above the UK-wide average of €23 per person. Wales and Northern Ireland receive more funding per person, at €125 and €60 respectively, while England receives €15.

The report highlights that in Scotland, this funding is used extensively by the two regional development agencies to support businesses to innovate. Scottish Enterprise and partners aim to engage over 5,000 additional SMEs over the three-year period 2015-2018 to raise awareness of innovation and its benefits within the business base, and to build companies' capacity to realise new opportunities for growth³. Similarly, the Highlands and Islands Enterprise 'Innovate Your Business' programme is part-funded by ERDF⁴. The programme is a one-to-one support service, and offers four areas of assistance: help to identify areas for growth; development of new products, processes or business models; design and implementation of collaborative projects; identification and securing of finance for innovation activities. There is also a small innovation grant scheme (up to £15,000).⁵

Scotland has also received £30m in ERDF to enable companies to capture new opportunities presented by the circular economy. This represents 43% of the £70m dedicated in Scotland to manufacturing and the circular economy, as set out in the Scottish Manufacturing Action Plan⁶, highlighting the significance of EU funding to resourcing these strategic aims.

Finally, the University of the Highlands and Islands was established and sustained with funding support from ERDF and the European Social Fund (ESF), and has subsequently achieved success in securing funding for excellent research through the European Research Council (ERC) grants under the EU Framework Programmes. In sum, these investments have resulted in new employment and economic development opportunities that would not have been available otherwise⁷.

As this illustrates, multiple funding sources support Scotland's research and innovation system, interacting in many different ways. For example, alongside ESIF investment, Scottish participants have drawn down just over €1.0bn of European Commission contributions through the two most recent EU Framework Programmes (€729.0m in FP7 and €295.7m in Horizon 2020 to February 2017). This is highest among all UK Devolved Administrations. The case study on the role of EU funding for research and innovation in Scotland provided in the Technopolis report includes further relevant analysis of these interactions that could helpfully inform future proposals to replace ESIFs, including highlighting the role of EU research funding in supporting key growth sectors in Scotland such as renewable energy to date.

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³ Scottish Enterprise Business Plan 2015-2018. <https://www.scottish-enterprise.com/about-us/what-we-do/business-plan-2015-2018>

⁴ See: <http://news.hie.co.uk/all-news/business-innovation-supported-in-highlands-and-islands/>

⁵ See: <http://www.hie.co.uk/business-support/innovation-r-d/iyb.html>

⁶ See: <http://news.gov.scot/news/manufacturing-plan-to-boost-industry>

⁷ See: http://www.parliament.scot/General%20Documents/University_of_The_Highlands_and_Islands.pdf

Appendix – Table illustrating planned EU Funding for research and innovation projects in the UK under EDRF (2014-2020), including those allocated to Scotland

Table 1 Planned EU funding for research and innovation projects in the UK under ERDF (2014-2020)

ERDF intervention field	England	Wales ^[1]	Scotland	Northern Ireland	UK total
001. Generic productive investment in small and medium –sized enterprises ('SMEs')	€ 0	€ 0	€ 16.5m	€ 0	€ 16.5 m
02 Research and innovation processes in large enterprises	€ 0	€ 9.2m	€ 0	€ 0	€ 9.2m
056 – investment in infrastructure, capacities and equipment in SMEs directly linked to research and innovation activities	€ 102.8m	€ 17.8m	€ 0	€ 76.1m	€ 196.8m
57 Investment in infrastructure, capacities and equipment in large companies directly linked to research and innovation activities	€ 0	€ 5.9m	€ 0	€ 32.6m	€ 38.6m
058 – research and innovation infrastructure (public)	€ 55.3m	€ 69.7m	€ 0	€ 0	€ 125.0m
059 - research and innovation infrastructure (private, including science parks)	€ 55.3m	€ 23.7m	€ 0	€ 0	€ 79.1m
060 – research and innovation activities in public research centres and centres of competence including networking	€ 55.3m	€ 18.4m	€ 0	€ 0	€ 73.7 m
061 - research and innovation activities in private research centres including networking	€ 53.3m	€ 9.2m	€ 0	€ 0	€ 62.5m
062 – technology transfer and university-enterprise cooperation primarily benefiting SMEs	€ 100.8m	€ 55.2m	€ 47.0m	€ 0	€ 203.0m
063 – cluster support and business networks primarily benefiting SMEs	€ 100.8m	€ 27.6m	€ 0	€ 0	€ 128.4m
064 – Research and innovation processes in SMEs (including voucher schemes, process, design, service and social innovation)	€ 100.8m	€ 63.9m	€ 48.0m	€ 4.7m	€ 217.4m
065 – Research and innovation infrastructure, processes, technology transfer and cooperation in enterprises focusing on the low carbon economy and on resilience to climate change	€ 88.9m	€ 86.2m	€ 46.1m	€ 0	€ 221.3m
067 – SME business development, support to entrepreneurship and incubation (including support to spin offs and spin outs)	€ 102.8m	€ 0	€ 0	€ 0	€ 102.8m
101 Cross-financing under the ERDF (support to ESF-type actions necessary for the satisfactory implementation of the ERDF part of the operation and directly linked to it)	€ 0	€ 1.5m	€ 0	€ 0	€ 1.5m
TOTAL Research and Innovation funding	€ 816.1m	€ 388.4	€ 157.6m	€ 113.5m	€ 1,475.6m

Source: Operational programmes for ERDF 2014-2020 (England, East Wales, West Wales and the Valleys, Northern Ireland, Scotland).

Note [1]: The 'Wales' column adds figures from the two Welsh operational programmes