Brussels, 25 September 2018

MEETING DOCUMENT

From: ERAC Secretariat
To: ERAC (European Research Area and Innovation Committee)

Subject: PowerPoint presentations by the Commission:
- Strategic debate on 'performance-based funding' and 'R&D tax incentives'
- 'SIP' – outcome of the 2018 European Semester
- AOB

Delegations will find attached the following PowerPoint presentations given by the Commission:

- "Strategic debate on 'performance-based funding' and 'R&D tax incentives'" under item 5.1 of the ERAC Plenary agenda of 17-18 September,

- 'SIP' - outcome of the 2018 European Semester under item 6 of the ERAC Plenary agenda of 17-18 September,

- AOB - presentation given under item 8 of the ERAC Plenary agenda of 17-18 September.
Item 5.1

Strategic debate on ‘performance-based funding’ and ‘R&D tax incentives’

Role of strategic debates

The goal is to bridge ERAC’s "discussion deficit" in relation to strategic thinking about the right R&I policy-mix

→ need for a substance-driven discussion around policy issues
→ pave the way for future ERAC engagement with 'priority 1'
→ food for thought for a potential renewed "ERA agenda"

Two topics where Member States and Associated Countries face challenges, and where reforms are being pursued

Debate based on the exploitation of new policy material:

- 2018 SRIP report
- European Innovation Scoreboard 2018
- Horizon 2020 PSF
- Cooperation with OECD
- Analyses performed by DG RTD and the JRC
Item 5.1.

1st topic - Performance based research funding

Topic 1: Performance-based funding

- Europe is world leader in scientific production (27% of global scientific publications in 2016)

- However, in relative terms and looking at top 10% most cited, Europe is at par w/ US and China quickly catches up

- **Policy response**: numerous EU MS and AC are making efforts to increase the effectiveness and performance of their public sector research systems through PRFS

- PRFS refers to the part of the institutional funding system allocated on a competitive or performance based manner (as opposed to block funding)
Increasing use of PRFS in the EU

- A growing number of countries have some PRFS: BE, HR, CZ, DK, EE, FI, FR, IT, LT, PL, PT, SK, SI, SE and UK
- BG, CY, EL, HU, IE, LV, LU, MT or RO do not use it
- ES, HU and DE pursued some of the PRFS goals by rewarding centres or units of excellence
- AT and NL base the allocation of institutional funding on performance agreements between universities and agency/ ministry
- The combined effect of growth in use of PRFS and growth in the proportion of project-based funding led to very diverse funding systems

PRFS: some lessons

- Is your country fit for PRFS? There is no optimal policy mix, but PRFS needs to be consistent with existing incentives
- Clear policy objectives avoid unintended or undesired behavioral changes. Don’t overload the system with multiple objectives!
- Carefully consider the ratio of project based to institutional funding in a context where project based funding is on the rise
- Design: peer review, metrics based or combination? Consider all parameters to make the best choice
- Launch evaluations to assess short and long-term impact to increase evidence on what works and does not and when
- Question: are the diverse PRFS approaches stemming from diverse R&I systems or from legacies from the past ...?
2nd topic – R&D tax incentives

Topic 2: R&D tax incentives

• Despite recent positive developments, high gap in business R&D intensity EU vs. main competitors:
  - EU business R&D intensity 1.32% GDP in 2016
  - 1.99% in US, 2.58% in Japan and 3.28 % in South Korea

• Policy response: increase in public support for business R&D, notably via R&D tax incentives

• R&D tax incentive schemes provide tax relief to businesses, organisations and individuals who do R&D
Increasing use of R&D tax incentives in the EU

- Account for 53% of all public support for business R&D in the EU
- Used in 23 EU MS (except BG, DE, EE, CY, FI)

R&D tax incentives: issues to consider

- **Design**: how to improve impact and ‘generosity’, notably vis-à-vis key target groups (e.g. start-ups, innovative firms)?

- **Appropriateness** vis-à-vis economic and R&I structure, e.g. share of high-tech activities, services/ manufacturing

- **Balanced** R&D policy mix, incl. direct support measures and **not** at the expense of the public science base!

- **Adequate monitoring and evaluation** tools to assess short and long-term impact

- **Budgetary** impact: monitoring in the EU Semester
Item 6

'SIP' – outcome of the 2018 European Semester

EU Semester cycle

• **Since 2010**, the Semester enables MS to coordinate their economic policies throughout the year and address the economic challenges facing the EU

• **Goals**
  (i) Ensuring sound public finances
  (ii) preventing excessive macroeconomic imbalances in the EU
  (iii) supporting structural reforms to create more jobs and growth
  (iv) boosting investment

• **Why it matters?**
  – Policy vehicle to support structural reforms underpinning productivity growth and long-term sustainable growth
  – Framework for EC-MS dialogue and support
  – R&I as catalyser of growth and competitiveness
Reform Delivery Tool

- **Why?** Support reforms that improve resilience and capacity of national economic structures with positive spill-overs across EU

- **What?** Financial support for reforms identified in Semester as priority. €22 billion. It will *not reimburse reform costs* and act as financial incentive to implement. No co-financing required

- **How?** MS submit "reform commitment package" as part of NRP. When reform implemented, lump-sum at end of process

- **When?** Proposed under the Reform Support Programme with the new Multiannual Financial Framework 2021-2027

- **R&I** is an eligible reform area, so what next? RTD:
  - Committed to deepen dialogue
  - Open to discuss areas where reforms could be proposed

Outcomes of 2018 Semester (SIP Note)

- **CSRs** adopted on 13 July for 27 MS: more targeted and less

- They call on MS to adopt a more **forward-looking approach** to achieve sustainable, inclusive and long-term growth, by using the currently favourable economic conditions

  - 13 on R&I:
    - Increase public and private investment: ES, IT, DE, NL
    - Improve efficiency/quality of public investments: ES, FR, LT, SK
    - Support better science-business links: IE, FR, LT, PL
    - Improve supply of S&T human resources: BE, PT
    - Improve innovation capacity, incl. of SMEs: CZ, EE, IE, FR, PL, SK

- Renewed dialogue with MS and dedicated tools (Reform Delivery Tool) to increase **ownership**
Item 8

AOB – Your feedback for the PSF evaluation

PSF evaluation

- Expert Group to evaluate the services of the PSF
  - Chair: Prof. Dr. MEYER-KRAHMER
  - Rapporteur: David WILSON
  - Members: Petra Zagar (SI), Jacqueline Barbara (MT), Begoña Sanchez (ES)

- Objectives: evaluate the appropriateness and effectiveness of PSF and provide recos to improve its services under HE

- The group will get in touch with people for interviews

- Reminder: online questionnaire sent to PSF participants in July. **We still need feedback from many countries!**

- Any input of ERAC delegates to Panel welcome by end October

- Contact: RTD-PSF@ec.europa.eu
Item 8

AOB – Your support to get micro-data on productivity

Your support for relevant micro-data

- EC-OECD work on better-evidence based policy making
- More and better productivity metrics: Multiprod and Dynemp
- Access to micro data based on distributed statistical routines but confidentiality is an issue (NSOs and Central Banks)
- Call on ERAC to raise awareness with responsible authorities
- Covered : AT, BE, CH (Multiprod), DE, DK, FI, ES (firm dynamism), UK, HU, LU, NL, SE and PT
- Contact but no progress: HR, CZ, EL, LV, PL, SK and SI
- Beñat.Bilbao-Osorio@ec.europa.eu happy to get you in touch with your specific contact point. We need you!