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LIMITE

RECH

WORKING PAPER

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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



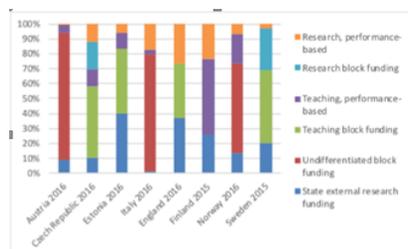
Topic 1: Performance-based funding

- 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 ...?



Item 5.1.

2nd topic – R&D tax incentives

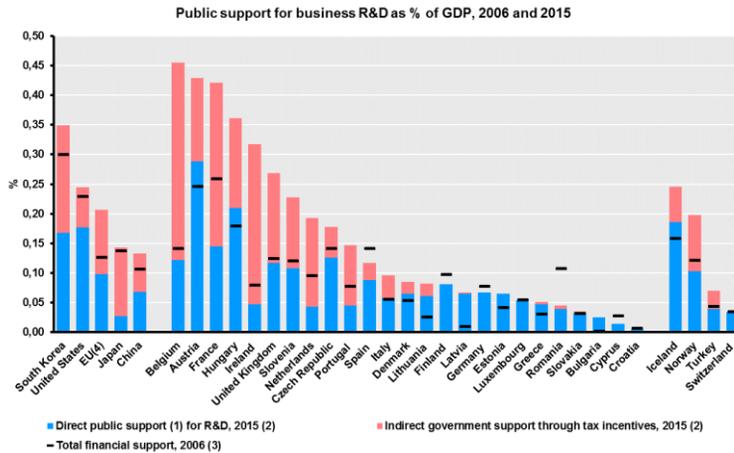


Topic 2: R&D tax incentives

- 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!

