

Scottish Research, Development & Innovation Scheme State aid N369/2008 - United Kingdom

Explanatory Notes: January 2009

FOREWORD

These notes have been produced to provide information and guidance on the application and use of the Scottish Research, Development and Innovation Scheme. They should be consulted when planning, devising and delivering any R&D&I aid or Programme under the scheme. The notes are jointly owned by SG, SE and HIE.

Any R&D&I programme introduced by SG, SE or HIE should have its own guidelines, eligibility criteria and operating procedures. The responsibility for producing these documents, and ensuring that the programme is fully compliant with the Scottish Research, Development & Innovation Scheme, lies with SG, SE and HIE for their respective programmes.

It should be noted that the aid intensities set out in the Scheme reflect the maximum levels of support made available by the European Commission. Member States (in Scotland's case SG, SE or HIE) may set lower aid intensities for specific programmes created under the parameters of the Scottish R&D&I Scheme to reflect the strategic rationale and market failure being addressed through aid.

Amendments to the Scheme must be notified to, and approved by, the European Commission before they can be introduced.

For general State Aid enquiries, please contact the Scottish Government State Aid Unit on 0141 242 5816.

1. INTRODUCTION

The principal objective of the scheme is to encourage enterprises in Scotland to undertake innovative research and technological development with commercial potential in order to stimulate growth, strengthen competitiveness, and boost employment in Scotland. It aims to provide an incentive for enterprises to undertake research, development and innovation (R&D&I) activities in addition to their existing R&D&I activities and to encourage enterprises that are not currently doing so, to carry out R&D&I. It is not intended to subsidise a firm's existing R&D&I activity.

The Scottish Government Economic Strategy recognised the importance of R&D&I and that science, engineering and technology will continue to underpin our national competitiveness. Knowledge and skills in science, engineering and technology are becoming increasingly vital to Scotland, the UK and the EU as a whole as our enterprises become even more dependent on high value added and knowledge based products, processes and services.

R&D&I is an inherently high-risk activity, especially when the results are several years from the marketplace. They often require considerable financial investment and enterprises typically experience difficulties raising finance to research and develop new ideas.

Traditional bank finances and other private sources are often inappropriate as the risk associated with the R&D&I activity is difficult to appraise, the assets intangible and an enterprise's track record may be limited (especially in the case of high-tech start-ups).

Scotland's economic growth has underperformed relative to both the UK, and other small European countries, in recent decades. Over the last thirty years (1975 to 2005), Scotland's annual average growth in Gross Domestic Product (GDP) was 1.8 per cent, well below that of comparable small European countries, and significantly below the UK average of 2.3 per cent. Scotland's growth has lagged that of the UK, in nine out of the past ten years. Growth in Ireland has been three times higher over the same period and, in Norway, nearly twice as high as in Scotland.

In achieving growth this will be influenced by the key growth industries in Scotland: Energy, Financial and Business Services, Food and Drink, Life Sciences, Tourism, Creative Industries. R&D and innovation will play a key element in the growth of these industries.

In 2004, Scottish Business Expenditure on Research & Development (BERD) was £494 million, equivalent to 0.52% of GDP, placing Scotland near the bottom of the 3rd quartile of OECD countries. Sweden leads the rankings with BERD at almost 3% of GDP, followed by Finland and Japan at approximately 2.4% each. To reach the top quartile BERD would have to be £1,100 million higher.

The scheme is therefore designed to address this weakness by allowing the Granting Authorities – the Scottish Government (SG) in any part of Scotland, and Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE) in their respective operational areas -to support enterprises to carry out innovation and research and development projects with commercial potential. It is aimed at strengthening the scientific and technological bases of industry and encouraging collaboration/co-operation between enterprises and the research base in order to become more competitive internationally.

The overall aims of the scheme are to:

- Assist SMEs and large enterprises to research and develop new innovative products, processes or services with commercial potential (including feasibility studies, industrial research up to and including pre-competitive development);
- Stimulate innovation and encourage best practice throughout business;
- Foster the creation and development of new high-tech start-ups;
- Strengthen the scientific and technological bases of industry;
- Encourage co-operation between enterprises and the research base and help to effect wealth creation from the science base.

The scheme will permit the granting authorities to assist enterprises (in isolation or in collaboration with other industrial partners and/or public or private research base organisations) to carry out innovation, research and development (R&D&I) projects. Specifically:

- Aid for R&D Projects
- Aid for Technical Feasibility Studies
- Aid for Industrial Property Rights Costs for SMEs
- Aid for Young Innovative Enterprises

- Aid for Process and Organisational Innovation in Services Activities
- Aid for Innovation Advisory Services and Innovation Support Services for SMEs
- Aid for the Loan of Highly Qualified Personnel for SMEs

2. DURATION

The scheme is effective from 19 December 2008 and will operate until the end of 2013, or in accordance with any earlier duration amendments applicable to the Community Framework for State aid for R&D&I. The scheme supercedes the Scottish R&D scheme, N510/2007 and the HIE R&D Innovation Scheme for SMEs N385/2001.

3. ELIGIBLE RECIPIENTS

Qualifying enterprises within the meaning of Article 87(1) of the EC Treaty. Note that the term 'client companies' is used throughout this document to refer to any enterprises, as per Article 87(1), which apply to the granting authorities – and that application to the granting authorities is potentially open to all enterprises.

Support may be given to all industry sectors, taking account of any sector specific State aid restrictions that may apply.

No aid will be provided to enterprises in difficulty within the meaning of the EC's guidelines on State aid for rescue and restructuring to undertakings in difficulty.

4. INCENTIVE EFFECT

Aid to an enterprise under this scheme will not be provided for projects which have commenced prior to that enterprise submitting an application for aid. Where a potential beneficiary has already conducted feasibility studies this does not exclude the possibility of aid for an R&D&I project under this scheme. The granting authorities will award aid where they are satisfied that it will provide an incentive effect.

5. GRANTING AUTHORITIES

The granting authorities will be :

- Scottish Government
- Scottish Enterprise
- Highlands and Islands Enterprise

6. NATIONAL LEGAL BASIS

- Enterprise and New Towns (Scotland) Act 1990 as amended by Scottish Statutory Instrument 2001 N0. 126
- Science and Technology Act 1965, Section 5

7. BUDGET

The overall budget of the scheme, comprising total anticipated spend by all three granting authorities, is £155 million to the end of 2013.

8. CUMULATION

Aid for R&D&I shall not be cumulated with de minimis support in respect of the same eligible expenses in order to circumvent the maximum aid intensities laid down in the Community Framework for State aid for R&D&I, and therefore this scheme.

Where expenditure eligible for aid for R&D&I is eligible in whole or in part for aid for other purposes, the common portion will be subject to the most favourable ceiling under the applicable rules, excepting aid granted in accordance with the Community guidelines on State aid to promote risk capital investments in SMEs where this limitation does not apply.

The aid ceilings herein shall apply whether the support for the aided project is financed entirely from state resources or partly by the Community, with the exception of Community funding under the RTD Framework Programmes, as per section 8 of the Community Framework for State aid for R&D&I.

9. REPORTING AND MONITORING

The granting authorities commit to comply with the reporting and monitoring requirements stipulated in chapter 10 of the Community Framework for State aid for R&D&I. Annual reports will include demonstration of incentive effect for all aid granted to large enterprises, using the criteria specified in chapter 6 of the Framework for R&D&I, as follows:

- Increase in project size: increases in the total project costs (without decreased spending by the aid beneficiary by comparison with a situation without aid); increase in the number of people assigned to R&D&I activities;
- Increase in scope: increase in the number of the expected deliverables from the project; more ambitious project illustrated by a higher probability of a scientific or technological break-through or a higher risk of failure (notably linked to the higher risk involved in the research project, to the long-term nature of the project and uncertainty about its results);
- Increase in speed: shorter time before completion of the project as compared to the same project being carried out without aid;
- Increase in total amount spent on R&D&I: increase in total R&D&I spending by the aid beneficiary; changes in the committed budget for the project (without corresponding decrease in the budget of other projects); increase in R&D&I spending by the aid beneficiary as a proportion of total turnover.

Where an individual aid granted under the scheme exceeds Euros 3 million, the granting authorities will provide the Commission, within 20 working days, with the information requested in the standard form laid down in the Annex to the Framework for R&D&I.

Records of aid granted under the scheme will be maintained for 10 years from the date of the granting of each aid.

10. INDIVIDUAL NOTIFICATION

The granting authorities undertake to notify to the Commission all proposed aid under the scheme which reaches the thresholds for detailed assessment specified in chapter 7 of the Framework for R&D&I. The relevant aid thresholds are:

- For project aid and feasibility studies (aid amount per undertaking per project/feasibility study),
- if the project is predominantly fundamental research : EUR 20Mio
- if the project is predominantly industrial research : EUR 10Mio
- for all other projects : EUR 7.5Mio
- For process or organisational innovation in service activities (aid amount per project per undertaking), EUR 5 Mio;

11. APPLICATIONS FOR FUNDING

To ensure that the Community rules on the cumulation of aid - both in the case of aid awarded for different purposes and in the case of aid awarded for the same purpose under schemes approved by a single entity or various entities - are being complied with, applicants for funding must detail any other forms of public support they have received, or are likely to receive, in their application for funding.

12. PROJECT APPRAISAL

The appraisal of individual projects will be carried out by project officers within the SG, SE and HIE and the underlying principles must include:

- (i) Commercial confidentiality during the appraisal process being strictly maintained in a manner acceptable to any reasonable applicant;
- (ii) Applicants preparing an exploitation plan appropriate to their stage of business development and demonstrating how the results of the project will be further developed into commercial products, processes or services; and
- (iii) The potential market and the potential contribution to wealth creation being considered when choosing between applications.

13. OFFERS OF GRANT ASSISTANCE

Offers of grant assistance must be made via a formal undertaking between SG, SE or HIE and the recipients concerning the terms and conditions of the scheme and the decision to offer aid.

Under normal circumstances, aid will not be re-payable. However, if a recipient fails to carry out the project as agreed in the offer, SG, SE or HIE must retain the right to seek full recovery of grant. A condition to this effect should be included in the offer letter.

Agreements should also require grant recipients to provide progress reports at different stages in the project to enable the project officer within the SG, SE or HIE to monitor progress and activity.

14. PROJECT MONITORING

Grant can only be paid out by authorised staff within SG, SE or HIE after expenditure and satisfactory progress has been verified against the timetable, benchmarks and milestones prepared and agreed with grant recipients. Expenditure on some projects requires certification by an appropriately qualified accountant who is independent of the grant recipient. A condition to this effect will be set out in the offer of grant where such certification is believed necessary.

15. PROJECT EXPLOITATION

All R&D grant applicants must include an exploitation plan in their grant application describing how the results of the assisted project will be commercialised.

15. INTELLECTUAL PROPERTY

If an R&D project is undertaken by a single firm, ownership of the R&D results will reside with that firm. In the case of collaborative projects, ownership of the R&D and the granting of licenses for the results of the projects will reside with the various partners and will be subject to an agreement negotiated by the various partners at the outset of the project. SG, SE or HIE must ensure that a satisfactory agreement setting this out is in place before a project commences, however, SG, SE or HIE CANNOT impose any special terms on the various partners relating to the agreement. For example, the agreement will detail how the IP is to be shared amongst the partners but the SG, SE or HIE cannot stipulate how that IP is to be shared.

16. PUBLICITY/DISSEMINATION OF RESULTS

Details of projects supported under the scheme may be published by the SG, SE and HIE and a condition to this effect inserted in offer letters. Partners in collaborative research projects are required to put forward a publication/dissemination plan. The details of the plan will depend on the circumstances of each case, but participants will be expected to disseminate the results widely, subject to commercial confidentiality of information belonging to the industrial partners. Generally, the generic results of collaborative projects will be disseminated to a wider industrial and academic audience (e.g. through publication of research papers), while industrial participants will normally carry forward the R&D themselves or in partnership with other enterprises, with a view to developing commercial products, processes or services.

17. FORMS OF FINANCIAL ASSISTANCE

The scheme ONLY allows financial assistance to be paid in the form of grants. Grants are discretionary, payable in stages, normally in arrears, on production of evidence that the required amount of money has been properly spent on the project. Offers of grant assistance are subject to terms and conditions specified by the SG, SE and HIE. Assistance CANNOT be provided in the form of repayable loans, etc.

18. AID FOR R&D PROJECTS

Objective:

The objective is to achieve an increased level of R&D expenditure by helping enterprises develop innovative products, processes and services which will lead to their ability to grow and remain competitive.

Eligible Recipients

Projects must either be carried out individually by one enterprise or in collaboration with another or number of enterprises and/or research organisations, such as Universities, Research Institutes and National Health Service (NHS) Trusts. A research organisation is considered as an enterprise where it is engaged in economic activity.

Applications for grant assistance must be made by either an enterprise (including private research bodies) or a public research body partnering one or more enterprises.

Assistance may be provided to all sizes of enterprises in the form of discretionary grants paid directly to the recipient.

Research categories:

R&D projects which can be defined as fundamental research, industrial research or experimental development are eligible for support.

- (i) Fundamental Research shall mean experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts, without any direct practical application or use in view;
- (ii) Industrial Research shall mean the planned research or critical investigation aimed at the acquisition of new knowledge and skills for developing new products, processes or services or for bringing about a significant improvement in existing products, processes or services. It comprises the creation of components of complex systems, which is necessary for the industrial research, notably for generic technology validation, to the exclusion of prototypes as covered by point 2.2. (g) of the Framework for State Aid for Research and Development and Innovation.
- (iii) Experimental development shall mean the acquiring, combining, shaping and using existing scientific, technological, business and other relevant knowledge and skills for the purpose of producing plans and arrangements or designs for new, altered or improved products, processes or services. These may also include e.g. other activities aiming at the conceptual definition, planning and documentation of new products, processes and services. The activities may comprise producing drafts, drawings, plans and other documentation, provided that they are not intended for commercial use.

The development of commercially usable prototypes and pilot projects is also included where the prototype is necessarily the final commercial product and where it is too expensive to produce for it to be used only for demonstration and validation purposes. In case of a subsequent commercial use of demonstration or pilot projects, any revenue generated from such use must be deducted from the eligible costs. Note: funding demonstrators is allowed only where the demonstrator influences policy and still has technical challenges to be addressed. Funding demonstrators where the technology is more or less proven and where the project is centred more on the effective running of the facility is considered to be beyond experimental development.

The experimental production and testing of products, processes and services are also eligible, provided that these cannot be used or be transformed for use in industrial applications or commercially.

It is not the aim of this support mechanism to fund routine or periodic changes to products, production lines, manufacturing processes, existing services and other operations in process, even if such changes may represent improvements.

The aided part of the research project must completely fall within one or more of the R&D categories (the classification of R&D activities based on the OECD Frascati manual). When a project encompasses different tasks, e.g. Industrial Research and Experimental Development, each task must be allocated to a specific R&D category and the aid intensities for each category must not be exceeded.

Eligible Costs:

Eligible costs must be directly attributable to the specific project supported. The following costs shall be eligible :

1. personnel costs (researchers, technicians and other supporting staff to the extent employed on the research project);
2. costs of instruments and equipment to the extent and for the period used for the research project. If such instruments and equipment are not used for their full life for the research project, only the depreciation costs corresponding to the life of the research project, as calculated on the basis of good accounting practice, are considered as eligible;
3. costs for building and land, to the extent and for the duration used for the research project. With regard to buildings, only the depreciation costs corresponding to the life of the research project, as calculated on the basis good accounting practice are considered as eligible.
4. cost of contractual research, technical knowledge and patents bought or licensed from outside sources at market prices, where the transaction has been carried out at arm's length and there is no element of collusion involved, as well as costs of consultancy and equivalent services used exclusively for the research activity;
5. additional overheads incurred directly as a result of the research project e.g. travel directly associated with a project
6. other operating expenses, including costs of materials, supplies and similar products incurred directly as a result of the research activity.

Level of support:

The maximum grant rates are given in the table below:

	Small Co.	Medium Co.	Large Co.
Fundamental Research	100%	100%	100%
Industrial Research	70%	60%	50%

Collaborative Industrial Research	80%	75%	65%
Experimental Development	45%	35%	25%
Collaborative Experimental Development	60%	50%	40%

Collaboration

Up to a maximum aid intensity of 80 %, a bonus of 15 percentage points may be added if :

Collaboration between undertakings

- (i) the project involves effective collaboration between at least two undertakings which are independent of each other and the following conditions are fulfilled:
- no single undertaking must bear more than 70 % of the eligible costs of the collaboration project;
 - the project must involve collaboration with at least one SME or be cross-border, that is to say, the research and development activities are carried out in at least two different Member States.

Or

Collaboration between an undertaking and a Research Organisation

- (ii) the project involves effective collaboration between an undertaking and a research organisation, particularly in the context of co-ordination of national R&D policies, and the following conditions are fulfilled :
- the research organisation bears at least 10% of the eligible project costs;
 - the research organisation has the right to publish the results of the research projects insofar as they stem from research implemented by that organisation.

In case of collaboration between an undertaking and a research organisation, the maximum aid intensities and bonuses specified above do not apply to the research organisation.

For the purposes of points (i) and (ii) subcontracting is not considered to be effective collaboration.

When State aid is granted to the economic activities of public research organisations, in order to avoid possible cross-subsidisation from other publicly funded programmes, public research organisations have to separate their economic and non-economic activities and costs – see point 3.1.1 of the R&D&I Framework.

In case of collaborative research between undertakings and public research organisations, where support is granted to their economic activities, and where such collaboration qualifies for the collaboration bonus, the bonus will be granted in accordance to point 5.1.3 (b) (i) of the R&D&I Framework.

Or

Collaboration Bonus may also be applied:

- (iii) only in case of industrial research, if the results of the project are widely disseminated through technical and scientific conferences or published in scientific or technical journals or

in open access repositories (databases where raw research data can be accessed by anyone), or through free or open source software.

Necessity for the Aid

It is a requirement of the State Aid rules under which this aid Scheme was approved that the project must not have commenced prior to the enterprise submitting the application to the relevant granting authority. If the aid proposal is to grant aid for an R&D&I project, this does not exclude that the potential beneficiary has already carried out feasibility studies which are not covered by the request for State aid.

Cumulation:

Aid for R&D&I shall not be cumulated with de minimis support in respect of the same eligible expenses in order to circumvent the maximum aid intensities laid down in the Community Framework for State aid for R&D&I, and therefore this scheme.

Where expenditure eligible for aid for R&D&I is eligible in whole or in part for aid for other purposes, the common portion will be subject to the most favourable ceiling under the applicable rules.

The aid ceilings herein shall apply whether the support for the aided project is financed entirely from state resources or partly by the Community, with the exception of Community funding under the RTD Framework Programmes.

R&D Tax Credits

Beneficiaries under this scheme may also claim the large company R&D tax credit even if they are SMEs. A condition of approval for the UK's SME R&D tax credit, under EC State aid rules, is that individual projects that have been in receipt of a notified state aid, such as grants authorised under the Scottish R&D Scheme, cannot be included in a company's R&D expenditure for the purposes of the SME R&D tax credit. However, the Chancellor announced in his Budget of 2003 that the scope of the large company R&D tax credit (which is not a notified state aid) was to be widened to allow SMEs to claim, where they are not entitled to the SME credit because they receive state aid or another subsidy. This more closely aligned the position of SMEs to that of large companies and took effect from 9 April 2003.

Guidance on the SME and large company R&D tax credits can be found on SGs website www.scottishbusinessgrants.gov.uk

Application Process:

Enterprises will apply using the relevant Application Form which will be available from the granting authority.

Project Appraisal

The appraisal of individual projects will be carried out by project officers within SG, SE and HIE and the underlying principles must include:

- Commercial confidentiality during the appraisal process being strictly maintained in a manner acceptable to any reasonable applicant;
- Applicants preparing an exploitation plan appropriate to their stage of business development and demonstrating how the results of the project will be further developed into commercial products, processes or services; and

The potential market and the potential contribution to wealth creation being considered when choosing between applications.

Procedures For Larger Projects

Information Sheets: Where aid awarded to an individual project exceeds EUR 3 million, the EC's standard form in the Annex to its Framework for State aid for R&D&I shall be submitted to the EC, within 20 working days of the granting of the aid, for publication on its website.

Detailed Assessment: In the following cases, due to the higher risk of distortion of competition, the proposed aid shall be notified to the European Commission and it will undertake a more detailed assessment to determine whether the proposed aid may be granted. In such cases, aid may not be paid by the granting authority until it has been approved by the European Commission:

Fundamental Research

— If the project is predominantly fundamental research, where the aid amount exceeds EUR 20 million per undertaking, per project;

Industrial Research

- If the project is predominantly industrial research, where the aid amount exceeds EUR 10 million per undertaking, per project;

Experimental Development

— Where the aid amount exceeds EUR 7, 5 million per undertaking, per project.

Incentive Effect

For large enterprises, the incentive requirement will be met by assessing how the funding will have a significant effect on at least one of the following:

- Increase in project size: increase in the total project costs and/or increase in the number of people assigned to the process or organisational activities;
- Increase in scope: increase in the number of the expected deliverables from the project; more ambitious project illustrated by a higher probability of a scientific or technological break-through or a higher risk of failure (notably linked to the higher risk involved in the research project, to the long-term nature of the project and uncertainty about its results);
- Increase in speed: Faster implementation of the project.
- Increase in total amount spent: increase in total spending by the enterprise; increase in spending by the enterprise as a proportion of total turnover;

For SMEs, where the project is below EUR 7.5m, the incentive effect is taken as being automatically met.

NOTE - Awarding a higher level of grant assistance to a project than that for which it qualifies constitutes a breach of State aid. This could result in the European Commission removing the powers from SG, SE and HIE to provide grant assistance to support R&D

activity. Each project must therefore be strictly assessed to determine under which of the above stages of R&D activity it qualifies.

19. AID FOR TECHNICAL FEASIBILITY STUDIES

Objective:

The objective is to achieve an increased level of R&D&I expenditure by helping enterprises carry out technical feasibility studies to explore innovative products, processes and services, which will lead to their ability to grow and remain competitive.

Eligible Recipients:

Projects must either be carried out individually by one enterprise or in collaboration with another or number of enterprises and/or research organisations, such as Universities, Research Institutes and National Health Service (NHS) Trusts. A research organisation is considered as an enterprise where it is engaged in economic activity.

Applications for grant assistance must be made by either an enterprise (including private research bodies) or a public research body partnering one or more enterprises.

Assistance may be provided to all sizes of enterprises in the form of discretionary grants paid directly to the recipient.

Eligible Activities:

Eligible activities will consist of the investigation and assessment of the technological and commercial viability of transforming innovative technology into new products, processes or services. The results of a feasibility study can lead into industrial research activity or experimental pre-competitive development activities.

Eligible costs:

Eligible costs must be directly attributable to the specific project supported. Examples of the eligible costs can include:

1. personnel costs (researchers, technicians and other supporting staff to the extent employed to carry out the feasibility study);
2. costs of instruments and equipment to the extent and for the period used for the feasibility study. If such instruments and equipment are not used for their full life for the feasibility study, only the depreciation costs corresponding to the life of the feasibility study, as calculated on the basis of good accounting practice, are considered as eligible;
3. cost of contractual research, technical knowledge and patents bought or licensed from outside sources at market prices, where the transaction has been carried out at arm's length and there is no element of collusion involved, as well as costs of consultancy and equivalent services used exclusively for the feasibility study;
4. additional overheads incurred directly as a result of the feasibility study;
5. other operating expenses, including costs of materials, supplies and similar products incurred directly as a result of the feasibility study.

Necessity for the Aid:

It is a requirement of the State aid rules that the feasibility study for which funding is being sought must not have commenced prior to the enterprise submitting the application to the relevant granting authority.

Level of Support:

The maximum grant rate is set out in the table below:

	SMEs	Large
Preparatory to Industrial Research	75%	65%
Preparatory to Experimental Research	50%	40%

Cumulation:

As per section 8 of the Community Framework for State aid for R&D&I, aid for R&D&I shall not be cumulated with de minimis support in respect of the same eligible expenses in order to circumvent the maximum aid intensities laid down in the Framework for R&D&I, and therefore this scheme.

Where expenditure eligible for aid for R&D&I is eligible in whole or in part for aid for other purposes, the common portion will be subject to the most favourable ceiling under the applicable rules.

The aid ceilings herein shall apply whether the support for the aided project is financed entirely from state resources or partly by the Community, with the exception of Community funding under the RTD Framework Programmes.

Application Process:

Enterprises will apply using the relevant Application Form which will be available from the granting authorities.

Project Approval:

The appraisal and approval of individual projects will be carried out by the granting authority (SG, SE and HIE) and the underlying principles must include:

Proposed aid for feasibility studies, where the Enterprise is seeking in excess of €7.5m in support, will require a detailed assessment by the European Commission as set out in the Community Framework for State aid for R&D&I. In such cases, aid may not be paid by the granting authority until it has been approved by the European Commission.

Project Assessment:

The Approving authority will evaluate proposals based on

- Enterprise's application form
- Innovative nature of the proposed project
- Additionality of the proposed project i.e. whether an incentive effect is present
- Technical assessment including environmental aspects
- For large enterprises, the incentive requirement will be met by the granting authorities ascertaining that aid will have a significant effect on at least one of the following:

- Increase in project size: increase in the total project costs and/or increase in the number of people assigned to the process or organisational activities;
- Increase in scope: increase in the number of the expected deliverables from the project; more ambitious project illustrated by a higher probability of a scientific or technological break-through or a higher risk of failure (notably linked to the higher risk involved in the research project, to the long-term nature of the project and uncertainty about its results).
- Increase in speed: Faster implementation of the project than would have occurred without aid.
- Increase in total amount spent: increase in total R&D&I spending by the enterprise; increase in spending by the enterprise as a proportion of total turnover;

20. AID FOR INDUSTRIAL PROPERTY RIGHTS COSTS FOR SMEs

Objective:

To support SMEs that have completed a research and development project and are now proposing to obtain and validate patents and other industrial property rights associated with such research.

Eligible Enterprises:

Client enterprises of SG, SE and HIE that meet the following criteria:

- The enterprise must be an SME at the time of approval of the funding application and
- Must have undertaken a clearly defined Research & Development project where it is possible to define the category of research level in order to determine the maximum level of support.

Eligible Activities:

The patent acquisition plan will set out the proposed activities required to acquire the proposed patent and the proposed costs. The relevant granting authority will need to be satisfied that worthwhile patent protection is likely to be obtained and detailed satisfactory exploitation (including manufacturing and marketing plans) have been submitted either by the inventor or by the enterprise to which the invention is to be licensed.

Eligible costs:

The eligible costs are:

- costs preceding the grant of the patent or other industrial property rights in the first legal jurisdiction including costs relating to the preparation, filing and validating of the application as well as costs incurred in renewing the application before the patent/right has been granted;
- Translation and other costs incurred in order to obtain the granting or validation of the right in other legal jurisdictions.

Necessity for the Aid

It is a requirement of the Community Framework for State aid for R&D&I that the project for which funding is being sought must not have commenced prior to the enterprise submitting the application for aid to the relevant granting authority.

Level of Support:

The maximum level of support will be determined by the category of research for which the patent is sought.

Industrial Research	50%
Experimental Development	25%

Cumulation:

Enterprises receiving this support may also be eligible to apply for other financial assistance such as other Research & Development & Innovation funding , aid approved under the risk capital guidelines for other eligible projects, or other forms of approved aid.

Aid for R&D&I shall not be cumulated with de minimis support in respect of the same eligible expenses in order to circumvent the maximum aid intensities laid down in the framework for R&D&I and therefore this scheme.

Application Process:

Enterprises will apply using the relevant Application Form which will be available from the granting authorities.

Project Approval:

The appraisal and approval of individual projects will be carried out by the granting authority (SG, SE and HIE)

Project Assessment:

The Approving authority will evaluate proposals based on

- Enterprise's business plan
- Innovative and technological nature of the proposed project
- The likelihood that worthwhile patent protection can be obtained
- The likelihood that the technology is commercially exploitable through manufacture or licence
- Technical assessments by relevant experts including environmental aspects

21. AID FOR YOUNG INNOVATIVE ENTERPRISES

Objective:

To support the development of early stage innovative start up enterprises that are or have been carrying out Research and Development and Innovation activities and/or are intending in the foreseeable future to develop products, services or processes which are technologically new or substantially improved when compared to the state of the art in its industry in the Community and which carry a risk of technological or industrial failure.

Eligible Enterprises:

Client enterprises of Scottish Government, Scottish Enterprise or Highlands and Islands Enterprise that meet the following criteria:

- The enterprise must be a small enterprise that has existed for less than 6 years at the time when the aid is approved and where:
- The granting authority will demonstrate through the evaluation of the business plan, carried out by an external expert, that the enterprise will, in the foreseeable future, develop products, services or processes which are technologically new or substantially improved

compared to the state of the art in its industry in the EU, and which carry a risk of technological or industrial failure

or

- the enterprise will provide independently audited confirmation to the granting authority at the time of application that the R&D expenses of the enterprise represent at least 15% of its total operating expenses in at least one of the three years preceding the approving of the aid or in the case of a start-up enterprise without any financial history in the current fiscal period.

Necessity for the Aid:

It is a requirement of the State rules that the business plan for which funding is being sought must not have commenced prior to the enterprise submitting the application to the relevant granting authority.

Eligible costs:

The eligible costs will be set out in an approved business plan to be submitted by the applicant enterprise.

Level of Support:

The aid will not be higher than EUR 1 million with the exception of aid to qualifying enterprises in regions eligible for the derogation in Article 87(3) (a) of the EC Treaty, which may not exceed EUR 1.5 million, and a maximum of EUR 1.25 million to qualifying enterprises in regions eligible for the derogation in Article 87(3) (c) of the EC Treaty.

Each enterprise will only be eligible to receive the aid once up to the maximum amount during the period it qualifies as being a young innovative enterprise. The granting authority will monitor the progress of the enterprise to ensure that it continues to qualify as a young innovative enterprise.

Cumulation:

Enterprises receiving this support may also be eligible to apply for other financial assistance such as other Research & Development & Innovation funding and/or other aid approved under the risk capital guidelines . The beneficiary will not be entitled to receive other State aid such as investment aid, employment aid, for trade fairs, training and/or non-routine consultancy aid until 3 years after receiving approval of this aid. This will be monitored by the granting authority and included in the grant agreement.

Aid for R&D&I shall not be cumulated with de minimis support in respect of the same eligible expenses in order to circumvent the maximum aid intensities laid down in the framework for R&D&I.

Application Process:

Enterprises will apply using the relevant Application Form which will be available from the granting authority.

Project Approval:

The appraisal and approval of individual projects will be carried out by the granting authority (SG, SE and HIE)

Project Assessment:

The Approving authority will evaluate proposals based on

- Enterprise's business plan and financial information
- Innovative and technological nature of the proposed business plan
- Additionality of the proposed project i.e. whether an incentive effect is present
- Level of risk associated with the proposed business plan and
- Technical assessments by relevant experts including environmental aspects

22. AID FOR PROCESS AND ORGANISATIONAL INNOVATION IN SERVICES

Objective:

Innovation in services provides an essential competitive advantage to enterprises. This initiative will provide support to those enterprises that are implementing new or significantly improved production or delivery methods including significant changes in techniques, equipment and/or software. Process and organisational innovation in manufacturing and processing may be assisted under "Aid For R&D Projects".

Eligible Enterprises:

Client enterprises of SG, SE and HIE. However, large enterprises can only apply provided that the proposed project is undertaken in collaboration with an SME and the SME incurs at least 30% of the total eligible costs.

Eligible Activities:

The business plan will set out the proposed activities showing how the proposed process and/or organisational innovation in services is either new or substantially improved when compared to those used by other undertakings in the same industry in the EU. In order to meet the requirements of the Framework for R&D&I the business plan will show how organisational innovation is linked to ICT to change the organisation, how the project will be managed and costed and the impact of this project in terms of a robust developed business model, methodology or concept.

Process innovation is defined as the implementation of a new or significantly improved production or delivery system (including significant changes in techniques, equipment and/or software). Organisational Innovation is defined as the implementation of a new organisational method in the enterprise's business practices or external relations.

The following conditions must be fulfilled:

- organisational innovation must always be related to the use and exploitation of Information and Communication Technologies (ICT) to change the organisation;
- the innovation must be formulated as a project with an identified and qualified project manager, as well as identified project costs;
- the result of the aided project must be the development of a standard, of a business model, methodology or concept, which can be systematically reproduced, possibly certified, and possibly patented;
- the process or organisational innovation must be new or substantially improved compared to the state of the art in its industry in the Community. The novelty could be demonstrated by the Member States for instance on the basis of a precise description of the innovation, comparing it with state of the art process or organisational techniques used by other undertakings in the same industry;

- the process or organisational innovation project must entail a clear degree of risk. This risk could be demonstrated by the Member State for instance in terms of: project costs in relation to company turnover, time required to develop the new process, expected gains from the process innovation by comparison with the project costs, probability of failure.

Necessity for the Aid:

It is a requirement of the State aid rules that the project for which funding is being sought must not have commenced prior to the enterprise submitting the application to the relevant granting authority.

Note those routine or periodic changes to products, production lines, manufacturing processes, existing services and other operations in progress, even where such changes represent improvements, do not qualify for State aid.

Eligible Costs:

Process and Organisational innovation

The eligible costs will be set out in the business plan. Export aid will be excluded.

Eligible costs are the same as for aid to R&D Projects (see above). In the case of organisational innovation for services, however, eligible costs are only the costs of ICT instruments and equipment cover costs of ICT instruments and equipment.

Level of Support:

The maximum level of support will be

	Small	Medium	Large*
All regions	35%	25%	15%

* Large enterprises are only eligible where they are collaborating with one or more SMEs in the proposed activity and where the SMEs are contributing at least 30% of the total eligible costs.

Cumulation:

Enterprises receiving this support may also be eligible to apply for other financial assistance such as other Research & Development & Innovation funding , aid approved under the risk capital guidelines , or other forms of approved aid.

Aid for R&D&I shall not be cumulated with de minimis support in respect of the same eligible expenses in order to circumvent the maximum aid intensities laid down in the framework for R&D&I.

Application Process:

Enterprises will apply using the relevant Application Form which will be available from the granting authorities.

Project Approval:

The appraisal and approval of individual projects will be carried out by the granting authority (SG, SE and HIE)

Larger Projects: Process and organisational innovation projects where either the enterprise or the whole project (if more than one enterprise is involved) is seeking in excess of €5m in support will require a detailed assessment by the European Commission as set out in the Framework for R&D&I. In such cases, the aid may only be paid after the approval of the European Commission has been obtained.

Project Assessment:

The Approving authority will evaluate proposals based on

- Enterprise's business plan showing how the innovation proposal is formulated as a project with an identified/qualified project manager including identified project costs.
- Innovative and technological nature of the proposed project
- Additionality of the proposed project
- The degree of risk for the enterprise in undertaking the proposed project
- Technical assessments by relevant experts including environmental aspects
- The expected outcome of the project and whether it might lead to development of a standard, a business model, a methodology or a concept, which could be systematically reproduced, possibly certified, and possibly patented and
- Incentive effect

To meet the incentive requirement, the assessment process will identify how the funding will have a significant effect on at least one of the following:

- Increase in project size: increase in the total project costs and/or increase in the number of people assigned to the process or organisational activities;
- Increase in scope: increase in the number of the expected deliverables from the project; more ambitious project illustrated by a higher probability of a scientific or technological break-through or a higher risk of failure (notably linked to the higher risk involved in the research project, to the long-term nature of the project and uncertainty about its results.
- Increase in speed: Faster implementation of the project.
- Increase in total amount spent: increase in total spending by the enterprise; increase in spending by the enterprise as a proportion of total turnover.

23. AID FOR INNOVATION ADVISORY SERVICES & SUPPORT SERVICES FOR SMEs

Objective:

This is aimed to encourage SMEs to utilise the advisory and innovation support services provided by innovation intermediaries in order to enable them to address the challenges that they face in a more innovative manner.

Eligible Enterprises:

Client enterprises of Scottish Government, Scottish Enterprise or Highlands and Islands Enterprise are eligible.

Eligible Activities:

The SME will submit an application form setting out the problems that need to be addressed in an innovative way through the use of innovation service providers.

The following activities may be sought from the service provider:

- Innovation advisory services:
management consulting; technological assistance; technology transfer services; training; consultancy for acquisition, protection and trade in Intellectual Property Rights and for licensing agreements; consultancy on the use of standards
- Innovation support services
Office space; data banks; technical libraries; market research; use of laboratory; quality labelling, testing and certification;

Eligible costs:

The eligible costs can include the cost of service provider to provide the above services. Where this is the case, the beneficiary SME will obtain an invoice for the cost of the proposed services.

Necessity for the Aid

It is a requirement of the State aid rules that the project for which funding is being sought must not have commenced prior to the enterprise submitting the application to the relevant granting authority.

Level of Support:

Each of the following conditions must be fulfilled in order to be eligible for support under this initiative:

1. The enterprise must be an SME and
2. The enterprise must use the State aid to buy the services at market price (or if the service provider is a non-for-profit entity, at a price which reflects its full costs plus a reasonable margin).
3. Up to 100% of eligible costs, subject to a maximum of €200,000 per beneficiary enterprise within any three year period, where the service provider benefits from a national or European certification. Where this is not the case, aid up to a maximum of 75% of eligible costs.

Cumulation:

Enterprises receiving this support may also be eligible to apply for other financial assistance such as other Research and Development and Innovation funding, aid approved under the risk capital guidelines for other eligible projects, or other forms of approved aid.

Aid for R&D&I shall not be cumulated with de minimis support in respect of the same eligible expenses in order to circumvent the maximum aid intensities laid down in the framework for R&D&I.

Application Process:

Enterprises will apply using the relevant Application Form which will be available from the granting authority.

Project Approval

The appraisal and approval of individual projects will be carried out by the granting authority (SG, SE and HIE)

Project Assessment:

The Approving authority will evaluate proposals based on

- Enterprise's application form
- The expected benefit/contribution of the proposed activity
- Innovative and technological nature of the proposed project

24. AID FOR THE LOAN OF HIGHLY QUALIFIED PERSONNEL TO SMEs

Objective:

To enable SMEs to receive highly qualified personnel seconded from a research organisation or a large enterprise in order to improve their R&D&I capabilities.

Eligible Enterprises:

SME client enterprises of SG, SE and HIE.

Eligible Activities:

The SME will submit a business plan setting out the proposed R&D&I project and the need and justification for and benefit from the secondment of personnel. The plan will identify the newly created position in the SME and a commitment that the seconded personnel will work full time on R&D&I activities and will not be a replacement of an existing staff member.

Secondment means the temporary employment of a person by the applicant enterprise for an agreed period of time after which the person has the right to return to his/her previous employer.

The seconded personnel mean researchers, engineers, designers, and/or marketing managers with a third level qualification and at least 5 years professional experience. The seconded personnel must have been employed for at least two years in the research organisation or the large enterprise, which is sending the personnel on secondment.

Eligible costs:

The eligible costs can include:

- Salary cost for the seconded person
- Cost of recruiting agency
- Relocation costs

The provision does not allow covering consultancy costs (payments of service by the expert without employing the expert).

Necessity for the Aid

It is a requirement of the State rules under which this initiative is approved that the project for which funding is being sought must not have commenced prior to the enterprise submitting the application to the relevant granting authority.

Level of Support:

The maximum level of support will be

- 50% of all personnel costs of the seconded person for a maximum of 3 years per undertaking and per person borrowed
- 50% of agreed recruitment and relocation costs incurred by the enterprise

Cumulation:

Enterprises receiving this support may also be eligible to apply for other financial assistance such as other Research and Development and Innovation funding, aid approved under the risk capital guidelines for other eligible projects, or other forms of aid.

Aid for R&D&I shall not be cumulated with de minimis support in respect of the same eligible expenses in order to circumvent the maximum aid intensities laid down in the framework for R&D&I.

Application Process:

Enterprises will apply using the relevant Application Form which will be available from the granting authority.

Project Approval

The appraisal and approval of individual projects will be carried out by the granting authority (SG, SE and HIE)

Project Assessment:

The Approving authority will evaluate proposals based on

- Enterprise's business plan
- The expected benefit/contribution of the seconded person
- Innovative and technological nature of the proposed project on which the seconded person will work.
- Technical assessments by relevant experts including environmental aspects