

## Submission to the Advisory Group from SE Board

The Advisory Group have heard contributions from many business organisations, industry leaders, businesses of every size and from every sector and geography of Scotland. We do not seek to replicate the analysis that the AGER has already been exposed to.

In our submission, we have looked to focus on areas that can have a catalytic impact on economic development, and which can enable a more robust, resilient and wellbeing economy.

### 1. **Climate Challenge:**

Economic growth that meets net zero emissions by 2045 will require a fundamental shift in the way we work and live today, if we are to successfully transition to a low carbon economy.

*The opportunity:*

**We must use the 'new normal' to make an emphatic shift in the coordination and collaboration across our enterprise, skills, education and regulatory system; we need to be galvanised around a strategic vision that ruthlessly prioritises economic opportunities that play to our international, low carbon advantage. This is how public money will stimulate an enterprise economy that can endure.**

### 2. **Labour Challenge:**

Driving the wellbeing economy as a national outcome is challenging when it isn't hardwired to more traditional outcomes / forms of measurement in productivity and output.

*The opportunity:*

**Wellbeing is not a means to an end, it is the end. If wellbeing is our destination, protecting and creating quality jobs - providing purposeful work aligned to our national intent - should be our simple goal. A strategically directed labour market recovery plan, focused on the most vulnerable, must be central to our economic and social wellbeing. Let's not miss the opportunity to fix the underlying labour problem that fuels inequality.**

### 3. **Structural Challenge:**

The mechanics of the global economy are fundamentally changing, and shocks will continue to come our way; we need adaptive resilience.

*The opportunity:*

**We need to better understand the economic opportunities allied to perennial global change. In an enterprise economy, Government needs an intensive relationship with all sectors that have a stake in the economy. This is not stakeholder management, it is active participation.**

### 4. **Innovation Challenge:**

The fourth industrial revolution – more than any other that has gone before - will inflate the value of talent and IP that fuels ideas and innovation. Scotland needs to liberate its capacity.

*The opportunity:*

**Let's develop one common IP framework. A true national asset that breaks down the barriers between generators of knowledge and generators of wealth to solve real-world needs and to have real impact on economic and societal challenges.**

5. **The 'getting it done' Challenge:**

Our size and connectivity should be a real asset, but our economic development system is too cluttered and complex to enable dynamic and strategic decision making. We need a digital backbone to our business support system, that facilitates frictionless navigation of the public sector.

*The opportunity:*

**Opportunity does not wait for the wheels of bureaucracy to turn. Scotland needs a decluttered system, where a national strategy is driven through empowered regional partnerships. National opportunities need a different treatment from local trading. One size doesn't fit all. Let's not re-engineer but make the best of what we have, and place capability and capacity where it is needed most.**

6. **Capital Challenge:**

As we pursue more financial powers in the medium to long-term, we have an urgent short-term need for capital to maintain vital trading entities, protect quality jobs and invest to grow.

*The opportunity:*

**We need to work closely with UKG and private institutions to ensure that they fully understand the make-up and needs of Scottish business if the recapitalisation of unsustainable debt is to meet our needs. Building the infrastructure that will fuel the low-carbon economy will also require us to leverage Scottish capital in the UK and foreign markets; we need a world-class 'green growth' national prospectus.**

7. **International Challenge:**

Despite the geo-politics of international trade shifting before our very eyes, global trade and inward investment still represent one of our most significant economic opportunities.

*The opportunity:*

**We need to revitalise Internationalisation as a means of growth; trade, investment and Brand Scotland are vital if we are to bring the capital, talent and jobs we need. Investment is required to promote, position and sell Scotland if we are to realise the economic, fiscal and social benefits that arise when we share our talent, ideas and culture. If it is to work, we must commit at competitive levels of investment and power up Scotland is Now.**

8. **Circularity Challenge:**

We can ill afford to be too dependent on imported materials and goods that are critical to Scotland's economy. Circularity not only fuels a more productive economy but supports a self-sustaining manufacturing base.

*The opportunity:*

**We need a fully integrated policy framework (including procurement and regulation) that unlocks the potential to embed local, circular supply chains to support our current manufacturing base, while encouraging investment in the future growth of sustainable manufacturing jobs.**

## 9. **Natural Assets Challenge:**

The value of nature has been overlooked for the last 200+ years with the result that the earth's non-renewable resources have been plundered and lost. Scotland has a world-class natural asset base. We need to protect, nurture and invest in those assets, and manage them sustainably where they underpin economic opportunities.

*The opportunity:*

**Our enabling policy and regulatory frameworks must put a value on Scotland's Natural Capital. We must then manage our natural assets and biodiversity in ways that will safeguard them in their own right as well as support them as sustainable inputs to Scotland's economy. Carbon capture and storage, decommissioning and low-carbon innovation in transport and power supply are opportunities of immense scale that play to our natural advantage but will require us to deliver all the above (1-8) if we are to leave the right legacy for future generations.**

## **Context**

Many of the challenges facing Scotland's economy are stubborn issues which have been heightened through the Covid crisis.

Scotland's productivity lags most other small, advanced economies and could be 20% larger if productivity matched the best OECD performers<sup>1</sup>. We have a smaller business base (relative to population) than most UK regions - and just 5% (700 businesses) achieve high growth, a lower proportion than most other UK regions<sup>2</sup>. Overall, Scotland has 357,000 businesses; 69% are self-employed, 24% are micro employers and 5% are small – just 2% are medium or large businesses<sup>3</sup>.

Low levels of productivity, fewer growth companies, larger numbers of micro and small enterprises all create a fragile eco-system, which has been severely impacted by the pandemic.

The short to medium term economic outlook remains deeply uncertain and a cause of great concern for all sectors. Consensus amongst economic forecasters is that there won't be a quick V-shaped rebound but a longer, more gradual recovery. For many businesses across the country this crisis demands a radical rethink on the fundamentals of their business; the public sector needs to respond in equal measure with bold and innovative thinking that will plot a pathway to recovery.

No government, public agency or sector can afford to work in isolation. The nature of the challenges that existed pre-Covid (automation, demographics, Brexit) have only been made more acute in a post-Covid world. We must work together for the economy and for the people of Scotland. In all that we do, we must focus on creating good sustainable jobs, that give people a sense of purpose. If wellbeing is our destination, protecting and creating good jobs that can sustain must be our simple goal.

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<sup>1</sup> Source: Scottish Government, OECD, Scottish Enterprise analysis

<sup>2</sup> Source: ONS, Scottish Enterprise Analysis

<sup>3</sup> Source: Scottish Government

## Enabling recovery: focus and prioritisation

While Scotland is a small nation, we are an economy of many parts borne of a long industrial history. We also have a world class reputation for research and development. Much is made of the money at our direct hand to meaningfully invest but we must continue to maximise investment into Scotland from UKG and globally. While we recognise the importance of capital investment, we also believe that we have the talent and ideas that can fuel our recovery, and future prosperity.

We will only realise the potential of our people and their ideas if we line up and galvanise our resources and assets to deliver against a national strategy, where advantage (comparative and competitive) meets opportunity. Prioritising opportunity areas for economic development, that will fuel future growth, is necessary to optimise resource in a world of finite resources.

With a clear strategic vision, we can drill into the analysis that can help us manage the advantage / opportunity prioritisation and in turn, the interface that exists across enterprise, skills, policy and regulation that will enable opportunity on core areas. While this will undoubtedly focus the national and international agenda on emerging technology, low-carbon innovation and advanced manufacturing, it will also help us understand the effort required across the economic system, to ensure the transition and active management of change in core industries like oil and gas, tourism and professional services.

## Enabling recovery: stakeholder participation

The success of Scotland's economy demands a collegiate approach across Team Scotland. Government, agencies, ILGs, policy teams, regulators, funders, higher and further education and the private and third sectors must work together within an efficient system.

Scotland needs to take advantage of its size and ability to make bold decisions at pace, by working with key stakeholders at the policy development stage and considering a wide range of scenarios and potential outcomes before deployment. To that end, we require continuous engagement with business in designing and delivering recovery, and greater data sharing between business, government and society. It is important that business is recast in terms of its relationship with society to be seen as a mutually beneficial joint enterprise.

Business and education and skills providers must also work in partnership to focus skills development on future industry demand. Scotland has the highest qualified population in Europe (48% of 25-64 year olds have a tertiary education)<sup>4</sup>. But 500,000 workers with higher level qualifications are 'overqualified' for the jobs they are in<sup>5</sup>. We must do more to ensure education and skills are industry-led.

Bringing academia, businesses and skills together will drive competitive performance. Building the strategic potential of our economic innovation assets must also be based on partnership and wide stakeholder participation in economic recovery. We must find ways to enable deeper collaboration across R&D, innovation and entrepreneurialism between our colleges, universities and businesses. In doing this, we will turn more knowledge and technology generated in academia into successful commercial products or services. Scotland's university research spend (£1.1bn in 2017) is amongst the highest in the world (relative to GDP), but business research spend (£1.2bn) lags many other

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<sup>4</sup> Source: Eurostat

<sup>5</sup> Source: ONS

economies<sup>6</sup>. And business innovation in Scotland activity lags most other UK regions and European countries. Over 2016-2018, just 33% of Scottish businesses (with 10+ employees) were ‘innovation active’<sup>7</sup>.

A new combined, dynamic and collaborative offering is required to facilitate a much faster pace behind the commercialisation of Scotland's world-class university research. We need a model which combines the capabilities, capacity and funding of academic research and IP in a way which speeds up and eases engagement for businesses. We should explore a range of options from the development of common IP framework agreements across academia, establishing an IP register in Scotland, expanding the Scottish Funding Council’s Interface platform to generate more demand from industry looking for academic and scientific research, or the co-location of universities/colleges (and schools) and businesses in business park style campuses. We must create the conditions that will facilitate meaningful enterprise and academic partnerships to convert our intellectual base into economic output.

Innovation Centres are another route to facilitate enterprise innovation. They must be more purposeful, refocused to stimulate an enterprise economy for the future, creating a hotbed for start-ups, business growth, FDI and talent attraction. They must become engine rooms for driving up business growth and creating jobs, with greater and sustained investment and greater levels of private sector participation.

### **Enabling recovery: a dynamic economic development system**

Scotland is not a big economy, but it is an economy of many parts; geographical and sectorial differences need to be recognised, respected and appropriately blended within the national approach.

Central to the overall recovery will be the corresponding roles and relationships between institutions across Scotland. Success will depend on more collaboration across Scotland, regional partnerships and local authorities. And we must recognise regional variation and circumstances, with the roles of communities and volunteers harnessed for a more participative democracy. People should be fully engaged in the national effort to revive and restore the economy.

Scotland needs a simple strategy that has sectoral and regional depth, and clear routes for international / national / regional and local implementation.

The crisis has revealed the vulnerability of businesses and supply chains to deal with shocks. Across all sectors, SMEs are most exposed, particularly regarding short-term cash flow. The debt burden and recapitalisation are immediate priorities. Financing of the recovery will be different for every business. We must be agile enough to offer support and advice on bridging finance support where that is required. However, patient, longer term support will be required for investment in R&D and innovation, supply chain development, apprenticeships and training and infrastructure and practices that can improve productivity. Partnership between business and colleges and HEIs can deliver transformational upskilling of employees to fuel innovation and productivity. Business investment (£13.5bn in 2019) has been declining in recent years and the investment rate is amongst the lowest

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<sup>6</sup> Source: Scottish Government, OECD

<sup>7</sup> Source: UK Innovation Survey, Scottish Government

of advanced economies<sup>8</sup>. Years of low investment means the quality and level of Scotland's capital stock is low<sup>9</sup>.

Access to loan and equity funding for early stage businesses will be required to foster new businesses, particularly in technology-led sectors. Pre-Covid, Scotland was one of the most active equity investment markets outside London and South/East England<sup>10</sup>.

### **Enabling recovery: internationalisation**

Scotland is an attractive location for foreign investment. In 2019, 101 projects were secured in Scotland, increasing Scotland's market share of UK projects to 9.1%. Scotland is the second most attractive region of the UK outside London<sup>11</sup>.

Attracting businesses to invest in Scotland and stimulating trade in international markets, remain critical to Scotland's future economic success. The Covid crisis has resulted in heightened global uncertainty, and we must face into a more competitive and charged global marketplace with a centre of gravity that continues to shift east.

To further the internationalisation agenda post-Covid we must have a strong offering. Focusing on those areas where Scotland has a natural and competitive advantage and matching those to the opportunities that exist in global markets. Scotland needs to stand out. We must be bold in promoting Scotland in its widest sense, as a purpose-led nation, being clear about who we are and what we stand for:

- Wellbeing derived from a vibrant enterprise economy where wealth created is shared
- A focus on shared values and fair and purposeful work must be key considerations when it comes to those, we seek to partner with
- A country that pioneers low-carbon innovation by leveraging natural capital
- Absolute clarity as to sectors we will play in and where we are prepared to leverage capital

We can leverage these strong, bold messages through Brand Scotland, appealing to those we seek to attract and sell too, and using this messaging to leverage soft powers through cultural assets.

We must relentlessly and ruthlessly focus on opportunity areas that play to our competitive and comparative advantage. Our efforts are currently spread too thinly across too many markets. We must galvanise the international trade and investment effort around key propositions that deliver the robust, resilient wellbeing economy that we seek. This is not about sectors but where we align around areas of opportunity that will drive the national priorities: low-carbon innovation, emerging technology, advanced manufacturing, circularity and drive up the number of companies trading overseas. The number of international exporters is growing (12,100 exported in 2018), however just 7% of businesses sell overseas<sup>12</sup>. Only 6% of non-exporters plan to start selling overseas in the future. And a fifth of non-exporters have goods/services suitable for exporting – suggesting Scotland has 26,500 potential exporters<sup>13</sup>.

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<sup>8</sup> Source: Scottish Government, OECD

<sup>9</sup> Source: David Hume Institute '[Wealth of the Nation](#)'

<sup>10</sup> Source: Scottish Enterprise

<sup>11</sup> Source: Ernst & Young Inward Investment Attractiveness Survey Scotland, 2020

<sup>12</sup> Source: ONS

<sup>13</sup> Source: Small Business Survey

Building a dynamic national prospectus that broadens our proposition to attract international talent and capital, as well as FDI, enabling us to upgrade our international sales effort, is critically important. SG and SDI colleagues in the field, as well as Global Scots and those that love Scotland and are in a position to influence, will have a clearly defined prospectus which leverages our regionally place-based offers, presents investor ready capital opportunities for green infrastructure and clearly defined propositions in opportunity areas.

This prospectus will only land if those in receipt have confidence in our enabling infrastructure in digital and transport connectivity and skills base, all of which will need considerable attention post-Covid to resuscitate and reinvigorate to enable our recovery.

Critically, creating quality jobs in Scotland that will support the kind of economy we need, will only be achieved if we maximise the mutual benefits that arise from effectively blending talent, investment and ideas from overseas, with our indigenous businesses. A wellbeing economy that is robust and resilient, needs to be outward looking and competitive.

### **Enabling recovery: supply chain development**

The strength and depth of Scotland's supply chains will be key to recovery. The emergence and evolution of critical supply chains in response to NHS needs throughout the pandemic has shown how companies can quickly re-purpose production lines, manufacture products locally and create local opportunities for communities. This experience should not be short term or temporary. More self-sufficiency in supply chains will create more job opportunities. And if we work with the manufacturing sector to build more circularity into their re-programmed production lines with products that can be used and recycled locally, we will encourage companies to capture value again and again from materials they use and re-purpose. We must take this opportunity when strengthening Scotland's supply chains, to rethink a new, smarter manufacturing sector that supports the circular economy and creation of sustainable jobs.

Local supply chains could also be advanced through public procurement. Institutions must be encouraged to invest locally, creating new business opportunities in the community instead of spending further afield. Where rules/laws on public procurement can be changed by Scottish Government, this should be encouraged. We should then look to focus on building relationships with and influencing public procurement officers to learn about and implement progressive procurement practices which consider social value as well as cost and quality in their decision making. To take advantage of more public procurement opportunities, we must also work with businesses to ensure they are in the best position to make competitive bids. We must connect the companies we work with to public procurement channels, stimulating the business base to actively seek out these opportunities and working with them to ensure they have the capacity and capabilities to bid for, and win, public contracts. This approach will accelerate the success of SMEs, strengthen local supply chains of institutions, and build the talent and knowledge in Scotland which can then be sold overseas.

## Enabling recovery: opportunities that drive a path to net zero

The crisis has the potential to be the catalyst for transformational change to drive the economy's transition to net zero and to build a greener economy. There is no doubt that Scotland can emerge from this crisis, as a leader in renewable technology and production, including energy transition, decarbonisation and carbon capture utilisation and storage. Scotland's low carbon and renewable energy sectors currently supports 49,000 jobs and £11 billion in turnover<sup>14</sup>. And the projected annual growth rate is 11% per annum between 2015 to 2030, and 4% per annum between 2030 and 2050. Scotland has an abundance of natural capital assets, that we can turn to our advantage in addressing the climate emergency. But we must move with pace.

Scotland offers investors a unique proposition (geography and natural assets) and we have the potential to generate more renewable electricity per head of the population than anyone else; not only creating jobs and distributed wealth but driving innovation, exportable IP, and creating the opportunity to attract talent and capital investment from overseas. Critically, the current generators and distributors of electricity (in all forms) want and need a stake in future assets. We can use SNIB / patient public funds as leverage to go into capital markets to raise monies that will enable build. We must also look at innovative asset ownership models that mean capital investors and large supply companies can invest and realise a return while we protect the integrity and ownership of national assets over time.

Scotland has the land mass and ideal climate for carbon capture & sequestration using a range of green, brown and blue nature-based solutions, such as peatlands, woodland creation and marine 'blue carbon' sequestration. These assets not only play a critical role in our economy, but also in community wealth building and they must be consciously managed now, and for the future.

Significant capital investment in green assets will require more patient investment in nature-based solutions, for example forestry and peatland restoration. We must influence the wider system to provide capital for investment in green assets to enable transformational change in our low carbon innovation and infrastructure, including housing/heating and transport, and attract the innovators we need to help build the future Scotland we want.

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<sup>14</sup> Source: Scottish Government ([Climate Change Plan](#))