

## **An open letter to George Freeman, Science Minister**

George Freeman MP  
Science Minister  
Department of Business, Energy and Industrial Strategy  
1 Victoria Street,  
London, SW1H 0ET

1 November 2021

Dear George,

### **A new approach to funding is needed to unleash innovation from small businesses**

We welcome the government's aspiration to make Britain a science and innovation superpower, and its bold plans for new innovation missions, increased investment and the establishment of ARIA - a welcome commitment considering the economic circumstances. Of course, success will require that the private sector steps up too. We believe it should and it can, but that government needs to engage the *whole* of the private sector as it implements its Innovation Strategy - including small businesses. At the Budget and Spending Review last week, the government announced welcome plans to grow public R&D investment to record levels of £20bn by 2024. How do we ensure that more of this budget is allocated to micro and small businesses?

Our 5.8 million small businesses are the lifeblood of the British economy who sit at the heart of our communities. They generate half of UK revenue and employ 16 million people. Many of these businesses are driven by entrepreneurs who are moving their sectors forward. From plumbers who are using smart technology and hairdressers digitising their offering to microchip manufacturers and the diagnostic test developers, the renewable energy pioneers and the fintech entrepreneurs - these disruptors and game-changers want to take on the world.

They work nimbly to solve problems, breaking new ground every single day. They employ people across the country, tapping into local skills, knowledge and networks. Today's start-ups are tomorrow's scale-ups and they are often quicker to see the potential of new technologies and emerging trends than their bigger counterparts. If we fail to pull out all the stops to drive the growth of these future business success stories, the UK's aspiration to be an innovative, high productivity economy will come to nothing.

'How' government supports our innovative businesses is as important as 'how much'. The small businesses we talk to tell us that funding mechanisms to support innovation seem designed for the big players. Support programmes can be bureaucratic, unwieldy and opaque – too much focus goes on the process, not enough on the outcome. In these circumstances a small business of 15 people cannot hope to compete with a company of thousands for grants, even if it would achieve much more with the money – and so it doesn't. We need to broaden funding beyond the big-name incumbents. The record increase in public R&D investment planned, including a welcome increase in Innovate UK's budget, could be positive news for small businesses but it is critical that alongside the

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## Challenges



Budget, there is a friction-free application process to open up access to organisations of all sizes and reduce any barriers.

We need to encourage reasonable and calculated risk taking and achieve better returns by diversifying the companies receiving R&D funding. A culture that attempts to squeeze out any and all risk by relying on a handful of the same well-known companies is not going to deliver the transformational change that the Innovation Strategy is looking to deliver.

The new Innovation Strategy and its missions are a chance to re-set, alongside news of increased R&D investment. This means designing programmes that are as open to brilliant micro-businesses as to established players. Looking beyond the big grants programmes of yesteryear, we need to add new mechanisms to the mix that level the playing field for small businesses like social impact bonds, advance market commitments and ambitious challenge prizes. We should reward the most effective solutions to problems, not simply those companies with name-recognition. Just as DARPA, the inspiration for ARIA, has successfully pursued open innovation and outcome-based funding models, so too should the new innovation strategy.

This is the chance to capitalise on the brilliance of our innovators in the millions of small- and micro-businesses in all corners of the country. To achieve science superpower status and find the technological solutions to our most urgent challenges, the new innovation strategy should cast the net wide to engage the entrepreneurs and problem-solvers that are currently overlooked. If it can keep barriers to entry low, employ a wider variety of funding mechanisms and double down on successes, it can propel UK R&D to new heights.

The UK's small businesses are ready to rise to the challenge and deliver the innovations and solutions that will earn the country its place as an innovation superpower. The new Innovation Strategy must seize this opportunity to put them at the heart of the mission. A new approach to funding science and technology R&D is essential to tapping into their talent and harnessing their potential for the future.

<b>Tris Dyson</b> Managing Director of Nesta Challenges	<b>Emma Jones CBE</b> Founder of Enterprise Nation
	
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