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International Conference on Investing in Innovation: Promoting New
Opportunities in the UNECE Region

Geneva, 10-11 April 2008

**REPORT ON THE INTERNATIONAL CONFERENCE ON INVESTING IN
INNOVATION: PROMOTING NEW OPPORTUNITIES IN THE UNECE REGION**

Summary

The International Conference on Investing in Innovation: Promoting New Opportunities in the UNECE Region addressed important policy-relevant issues on the financing of innovative enterprises, with specific reference to the problems of countries with economies in transition. It was organized by the Committee on Economic Cooperation and Integration of the United Nations Economic Commission for Europe, as part of the activities mandated in the thematic area concerning the promotion of an enabling environment for efficient financial intermediation in support of innovative development.

I. ATTENDANCE AND FORMAT

1. The International Conference on Investing in Innovation: Promoting New Opportunities in the UNECE Region took place from 10 to 11 April 2008. This Conference was organized as part of the activities carried out in accordance with the Programme of Work of the Committee on Economic Cooperation and Integration (CECI) for 2006-2008, which identifies as one of its thematic areas the promotion of an enabling environment for efficient financial intermediation in support of innovative development. Experts representing government ministries and agencies, public financial institutions, industry associations, private investors and academic institutions from thirty-one UNECE member States participated in the meeting. The Conference was also attended by representatives of intergovernmental organizations with relevant activities in the area of financing for innovative development (World Intellectual Property Organization, United Nations Industrial Development Organization, United Nations Environmental Programme Finance Initiative), multilateral financial institutions (European Investment Fund) as well as the European Commission.

2. The discussions at the Conference were organized in an opening session and four thematic sessions. A number of leading experts and practitioners (presentations available on <http://www.unece.org/ceci/>) introduced the debates in each of these sessions, followed by questions and answers and other interventions from the audience.

II. OPENING SESSION

3. The opening session was moderated by the UNECE Executive Secretary Marek Belka who welcomed participants and presented to the Conference the new UNECE publication “Financing Innovative Development: Comparative Review of the Experiences of UNECE Countries in Early-Stage Financing”. He emphasised that this publication had been extensively reviewed by the UNECE network of experts in this area, including some of those attending this Conference.

4. Presentations by keynote speakers in this opening session served as a general introduction to the Conference, providing a general background to the more specific themes considered subsequently. The issues reviewed during this opening session included:

- (a) The importance of financial framework conditions, including corporate governance, general shareholder rights and the efficiency of legal systems, for innovative development;
- (b) Venture capital financing has a positive impact on innovation, but these positive effects depend on the existence of other supportive conditions, including labour legislation and the tax and regulatory environment;
- (c) Integrated financial services markets and a harmonized regulatory framework reduce the cost of capital and widen access to investors;
- (d) Common accounting standards ensure transparency and promote confidence by prospective investors;
- (e) Specialised stock markets have a positive effect on early-stage and high-tech venture capital investments;
- (f) Comparisons between countries should take into account not only current differences in the overall environment for venture capital financing but historical legacies, as an important factor explaining the diversity of experiences;

- (g) Innovation is key in maintaining a country's competitive position in the global economy;
- (h) Growing research and development expenditures in emerging markets are changing the global landscape of innovation activity;
- (i) Small companies and universities are crucial contributors to innovation;
- (j) Innovation is not a linear process but results from a complex system of interaction between various research institutions, small and large companies and the users of innovative products;
- (k) Early-stage financing is problematic, even in countries with a well-developed venture capital market, as the United States. This requires public intervention, for example, along the lines of the United States Small Business Innovation Research (SBIR) programme, which has been replicated in other countries;
- (l) Science and technology parks serve to build partnerships and bridges between various actors of the innovation process that generate a continuous stream of ideas and ease access to funding;
- (m) Mobility of researchers and managers across international borders is a reflection of the importance of a good environment for innovation, which should be a target for policies; and
- (n) The identification of broad priorities of public interest, such as global warming, national security or health in the financing of innovation is not inconsistent with the use of market mechanisms.

III. SESSION ON NATIONAL POLICY EXPERIENCES IN PROMOTING THE AVAILABILITY OF RISK CAPITAL

4. A number of national experiences were presented during this session, including presentations on the situation and policy directions in Finland, the Netherlands, Portugal, Slovenia and the United Kingdom. Common issues which emerged during the presentations and the debate were the need to identify where market failures exist, what lessons can be learned from policy experiences, how to secure the sustainability of initiatives and how to measure the results of intervention. In addition, other issues included:

- (a) The challenge to transform investment into innovation in high-growth companies;
- (b) The need to tackle any bottlenecks that may arise at different stages of development of innovative enterprises;
- (c) The importance of promoting business angel activities to address early-stage financing problems;
- (d) The significance of universities as sources of potential commercial opportunities and the need to create appropriate incentives so these opportunities materialise;
- (e) The need to foster an entrepreneurial environment;
- (f) The benefits of adopting an approach that takes into account supply-side issues (the availability of financing) but also demand-side considerations, through investment readiness programmes;
- (g) The critical role of bankruptcy legislation in encouraging risk-taking and facilitating exit in the case of failure;
- (h) The use of fiscal incentives to promote the availability of entrepreneurial finance, benefiting individual investors or investment schemes;

- (i) The involvement of institutional investors, such as pension funds, in venture capital financing;
- (j) The need to foster the development of appropriate skills to select suitable investment opportunities and manage investments;
- (k) The challenges created by insufficiently developed exit possibilities and the ways to address them; and
- (l) The various types of support provided by government agencies, including through the use of European Union (EU) funds.

IV. SESSION ON WHAT GOVERNMENTS CAN DO TO ENHANCE PRIVATE INVESTMENT IN INNOVATION

5. This session provided an opportunity for representatives of public financial institutions, private investors and academics to present their views on public initiatives that may have a positive impact on the financing of innovation. In addition, representatives of industry associations introduced their own networking and information-sharing work as a way to promote innovation financing. Some of the issues discussed included:

- (a) The consideration of the overall economic impact as a criterion additional to financial return for the investment decisions of public financial institutions;
- (b) The necessary focus on small and medium-sized enterprises (SMEs), which face more severe financing constraints but are also key sources of technological dynamism;
- (c) The importance of combining public and private funds in order to create the right incentives for appropriate investment decisions;
- (d) The critical role of public funding in early-stage financing, as returns are often too low to entice private investors;
- (e) The relevance of good coordination between various initiatives;
- (f) The need for trainers and coaches to have a strong grounding in the private sector and direct entrepreneurial experience to provide effective services to companies;
- (g) Public support should focus not only on technologies. Management and entrepreneurial talent should also be nurtured;
- (h) Creating good conditions for cross-border investment is also a suitable strategy for the enhancement of innovation financing;
- (i) The use of risk sharing mechanisms as effective tools in promoting technological development and entrepreneurial finance;
- (j) The importance of credibility issues regarding the necessary withdrawal of public support from failing ventures;
- (k) The rapid development of the venture capital industry in the Russian Federation and the Government initiatives that are underpinning its growth;
- (l) Finance is often not the constraining bottleneck. Insufficient investment opportunities can be an issue, despite the presence of well-funded public support programmes;
- (m) The importance of acting simultaneously in other areas beyond finance, including education, entrepreneurship, intellectual property rights and standards. This facilitates new investment opportunities and the internationalization of new companies; and

- (n) Countries with economies in transition in the UNECE region offer potentially attractive investment opportunities but more supportive conditions need to be put in place so these promises are transformed into commercial offerings.

V. SESSION ON ADDRESSING ENVIRONMENTAL CHALLENGES THROUGH INNOVATION

6. Innovation can provide effective answers to environmental challenges. The adoption of new technologies in this area is also a source of business opportunities that has attracted significant interest. The main issues discussed during this session included:

- (a) Overall trends in business angel and venture capital financing of eco-innovation;
- (b) The emergence of a new asset class, defined by its relation with environmental concerns;
- (c) The comparatively large weight of early-stage financing in this area in comparison with mainstream venture capital financing and the main implications of this difference;
- (d) The role of government regulations in defining and underpinning markets;
- (e) The increasing appeal of eco-investing among different types of investors;
- (f) The changing sources of financing for these specialized venture capital funds;
- (g) EU initiatives in the financing of eco-innovation;
- (h) The danger that excessive enthusiasm may lead to over-investment in some areas;
- (i) The impact of current market turbulences on the immediate prospects for the development of this market segment;
- (j) The role of public procurement as a factor of dynamism;
- (k) The long-term implications of decisions shaping this sector; and
- (l) The need for stability and predictability in regulations to underpin growth in these markets.

VI. SESSION ON BRINGING ACADEMIC RESEARCH TO THE MARKET: NEW APPROACHES TO BRIDGING THE FINANCING GAP

7. Research institutions are a primary source of new ideas and scientific breakthroughs. However, the commercialisation of this research is not a straightforward process and requires putting in place an appropriate system of incentives and developing effective partnerships with other stakeholders, including financial backers. The issues considered in this session included:

- (a) The need to include innovation issues in academic curricula at a very early stage, so as to make students aware of the possibilities;
- (b) The advantages of a decentralized and non-hierarchical structure when attempting to boost innovation;
- (c) The importance of professional services associated with technology transfer, including financial and patent issues;
- (d) The role of large companies as a source of financing and encouragement for innovation based in research institutions;

- (e) The importance of all types of partnerships (not only public-private, but also public-public and private-private) and the role of the public sector as a catalyst and facilitator of these partnerships;
- (f) Clustering and geographical proximity issues as determinants of access to finance and technology;
- (g) The significance of clear intellectual property rights in order that investors can be interested in the commercialisation of research;
- (h) Lack of skilled management as an important constraint in successful university-based ventures;
- (i) Conflicts of interest between various stakeholders involved in the process, in particular researchers and universities, and how to address them;
- (j) The importance of facilitating the understanding and use of global standards in research institutions operating in a global setting;
- (k) The role of international organizations in technology cooperation; and
- (l) Setting up appropriate meeting points for industry and universities to contribute to better connectivity among stakeholders.

VII. OTHER BUSINESS

8. The Secretariat expressed its gratitude to speakers and other participants for their contribution to the debates. The outcomes of the Conference, including presented papers and materials reflecting the discussions, will provide an input for the formulation of policy recommendations on improving the regulatory environment for the financing of innovation-related activities, which will be discussed at the third session of the Committee on Economic Cooperation and Integration. The Secretariat informed participants that the outcomes of this Conference will also support the activities of the CECI in other thematic areas, in particular, in connection with the creation of a supportive environment for innovative development and knowledge-based competitiveness, entrepreneurship and enterprise development and the strengthening of the role of intellectual property rights in innovative development.
